



Annual Report

Geo. A. Hormel & Company
Austin, MN 55912

Fiscal Year Ended Oct. 26, 1999

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SPECIAL SECTION

At Geo. A. Hormel & Company, "We're Better Together." A 12-page section profiles special efforts by Hormel employees and traces the "teamwork" concept, more evident today than ever before, that has been a tradition for nearly a century.

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"In the best American tradition, the Hormel group brings together different talents and backgrounds, new ideas and innovation and a team concept that promotes enthusiasm and pride in excellence of work and product."

Julio Gonzalez
Stock Clerk
Houston, Texas

"On a trip to Sioux Falls, S.D., a fellow sales representative Bob (Robert L.) Best, stopped at one of my customers, the Boulevard Market in Sioux City, Iowa, and set up a three-item ad and demo for me. Thanks, Bob."

Carl L. Eby
Meat Products sales representative
Omaha, Neb.



Top photo: Many have invested a lifetime in our Company's good name. Glenn L. Mahnke, grocery products district manager in San Francisco, Calif., will retire this year after a distinguished Hormel career of nearly 40 years.

Bottom photo: New employees in the Austin, Minn., plant become part of the Hormel family through the Big Brother/Little Brother program. Richard J. Chuick (left), supervisor of cured and smoked meats, stopped to see how "little brother," John T. Flaherty, Hog Cut Department, is getting along.

Our workers themselves have made a renewed commitment to a safe workplace and with astounding results. The new Austin plant has one of the lowest lost-time injury rates in the Company. Likewise, Ottumwa employees have made great strides in reducing their injury rate.

Michael G. MacLean, personnel manager in Ottumwa, explains that the commitment of people — the bargaining unit, production management, staff and managers — produced this improvement. He also credits monthly safety training and awareness meetings and incentives such as trips and gift certificates. Significantly, MacLean reported at least 75 percent of the changes made on equipment leading to safety improvement were the direct result of employee suggestions.

In Stockton, Fort Worth and Houston, as in Austin and Ottumwa, employees are celebrating their quantum leap toward an injury-free workplace.

WE'RE BETTER TOGETHER

There is something akin to family pride in the celebrating. "We work hard together and we play hard together," commented Steven D. Liesch, meat products sales representative in Houston. "We are proud of the fact that we have always considered ourselves as one big happy family. The theme, 'We're Better Together,' is and always has been our unofficial motto. Through the years, mutual trust and respect have evolved."

Liesch listed a bicycle club, softball and basketball teams as ongoing employee activities. "Circumstances force us to work together, but we choose to socialize together," he said.

In the Austin plant, senior employees are "big brothers" to the new employees. Although the program is intended primarily to acquaint new workers with the workplace, there are other effects. "Good friendships have developed through the program," said Deryl D. Arnold, plant manager. Arnold himself spent the first day of a fall vacation in the plant, checking to see that all was well with his seven "little brothers" before he left on his holiday.

To be sure, we have outgrown our founder's walls. We have spread our facilities across the land. But we hold fast to the idea that we are one Company, one people, joined in a common purpose: to be the best that we can be. In this we keep faith with our founder.

"In order to maintain the excellent level of quality associated with the Hormel name, it is important we continue our commitment to superior communication among all employees."

Scott J. Porth
Gelatin Manufacturing Department
Davenport, Iowa

In a recent video presentation on the QIP, R. L. Knowlton, Company board chairman, president and chief executive officer, said, "In our interrelationships with other departments, remember that almost everything we do impacts on someone else." This message; i.e., each person's work affects every person's work, is essential to QIP and also underscores the importance of open communication lines across all levels of the Company.

WE'RE MORE COMMITTED

We have seen ample evidence that improved communication is making it easier for marketing, sales, engineering, research and other groups to pool their talents in creative, productive ways. As our people get to know each other better, both professionally and personally, we are seeing another result. Our people are demonstrating greater commitment and exhibiting more pride in our Company than ever before.

"I worked with grocery products in Atlanta for 10 years as a secretary, left for two years, and now I am in Cincinnati with meat products," said Barbara S. Husk, secretary in the East Central Region. "The guidelines are the same. We are part of a 'big team' with meat products and grocery products working side by side with purpose, dedication and congeniality among personnel. It's a good feeling to be back — and together is better!"

Consider again the management commitment of money and time to a long-term process involving every employee in education, communication and personal responsibility — a process in which the last step reads, "Do it all over again."

Consider, too, the commitment of both management and worker to a safer workplace.

Kenneth F. Carlson, corporate manager of safety and security, works with plant managers to increase the involvement of employees in the safety program. Not only are safety committees becoming more active, but plants have been working with employees to make safety awareness more enjoyable.

Company medical director Bernard S. Chapnick is working with employees to improve procedures for preventing carpal tunnel syndrome and other work-related injuries.

The Company has also invested in several new types of safety equipment, including a back brace called Comp-Vest for Shipping Department employees, for example, who perform repetitive lifting. The vest gives important back support.



Top photo: Working together to achieve a safe workplace, current members of the Davenport, Iowa, gelatin/specialized proteins plant safety committee meet to discuss new safety awareness programs. Pictured (seated) are LaVern W. Trewyn and Michael A. Smutzer. Standing are Ronald D. Millam, safety committee chairman; Kenneth H. Darin and John F. Schmitz.

Center photo: Through the dedication, pride and knowledge of our excellent secretarial staff, open communication lines hum throughout our entire Company network. Pictured is Sandra S. Martin, secretary for the Houston, Texas, grocery products sales district.

Bottom photo: Our Quality Improvement Teams (QIT), such as this one in Beloit, Wis., are committed to a common goal: to make quality a way of working and living together throughout our Company.



mentoring situation whereby older, more experienced employees are able to assist new staff people. This arrangement also helps infuse new ideas and energy into Company marketing efforts.

One of the most attractive features of the new QIP (Quality Improvement Process) is its built-in communication network of education sessions, Q & A sessions, daily briefings and exchange of views — all part of the working day and required of all Company personnel.

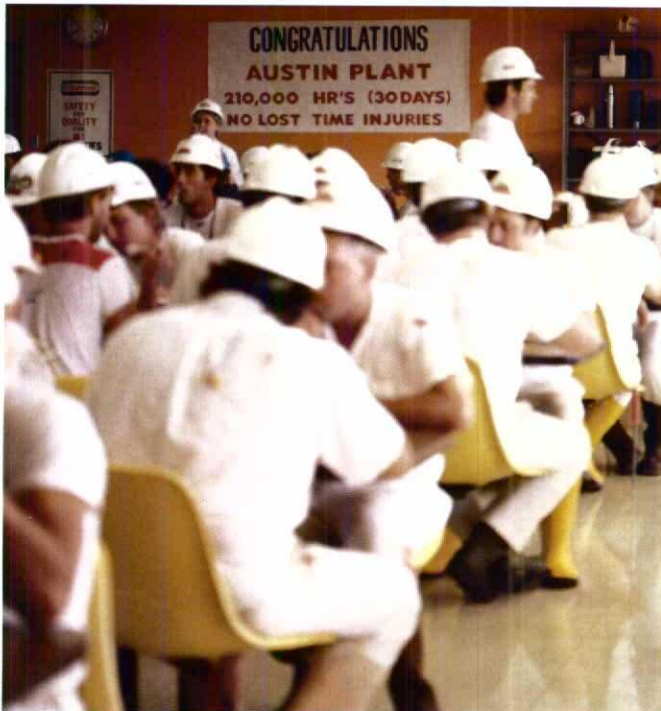
"To function at all requires good communication between workers and foremen, supervision and management, and between administration and operations," said Mark S. Roberts, manager of process and quality control for the Grocery Products Division. "This represents a massive network that is bonded simply by communication."

"Teamwork at the flagship Austin plant has produced a fantastic atmosphere for getting things done. The communication and cooperation between workers and management have been the biggest key to ensuring production of a quality product."

Albie F. Gilsrud
Industrial Engineer
Austin, Minn.

"QIP, with its emphasis on communication and teamwork, is the most exciting thing that has happened at Geo. A. Hormel & Company since I started here 39 years ago."

Deryl D. Arnold
Plant Manager
Austin, Minn.



Top photo: At Hormel, team victories are cause for team celebration. Austin, Minn., plant employees, including Annette F. Kraft (right), meat products sanitation, are served cake honoring the plant's safety record.

Bottom photo: One of our biggest cooperation stories: Our shared commitment to an injury-free workplace has resulted in historic safety records Companywide. A banner in the Austin plant congratulates employees for their 210,000 hours of no lost-time injuries.

Enthusiastic reports have come in from personnel at all levels regarding the positive effects of the Company's stepped-up communication efforts. "Our daily five- to 10-minute briefing prevents problems, prepares people for any changes that might occur and gives them a chance to ask questions," said Richard B. Aho, foreman in dry sausage consumer pack in Austin. "People feel more a part of their workplace. Morale is great. Attitudes are positive. We really are better than ever, and it's because we're more together than ever," added Aho.

Nineteen-year Austin employee Delmar E. "Del" Pepper agrees. "The teamwork aspect has been enhanced by the lack of any barriers between labor and management in the plant. Everyone has a part to play."

Communication is also an essential function of Tuesday morning "Results Sessions" at the Corporate Offices. "The objective of each session is to review the results of the previous week and year to date from an operations, sales and marketing viewpoint," said Marvin F. Moes, vice president of the Deli Division. "From this review, we make decisions on what needs to be accomplished and what changes are required, as well as reviewing all current projects as they relate to new products and packages, quality improvement, and so on."

"In plant maintenance, we are better together because we are a very unique team. We share a vast wealth of knowledge, each unselfishly displaying great expertise in our own field. With compassionate understanding, cooperation, encouragement to excel and the untiring efforts of our maintenance leadership, we are able to exercise our individual talents and utilize them as a whole. We effectively, efficiently and economically do our job with much pride and satisfaction."

Harold D. Hina
Electrician
Stockton, Calif.

Teamwork gets the job done! By coordinating the Mechanical Division and production people, the Dallas (Texas) meat products plant was able to start production on a new bulk sliced bacon line for Pizza Hut in only seven days.

Another example from New York, N.Y.: "It was a cold Friday in Buffalo last March when Ron (Ronald W.) Gohman, meat products district manager in Cedar Knolls, N.J., and I realized we could pull off a total over-quota performance on **Wranglers** smoked franks sales for the entire region," reported Martin E. Jensen, meat products district manager in nearby Buffalo, N.Y. "We directed our sales people to push for every pound of **Wranglers** smoked franks sales. In an outstanding effort, every sales representative in each district was over quota at the finish line! Cooperation, leadership and teamwork made it possible for Charlie (Charles F.) Cathcart's Northeast Region to finish No.-3 in the Company."

From Beloit, Richard C. Kentopp, plant manager, pointed to the startup of the **SPAM** luncheon meat operation as a fitting example of efficient teamwork. Kentopp stressed that the line not only started on schedule but within two weeks had two complete shifts in operation. "In less than one month, the lines ran with 90 percent efficiency," stated Kentopp.

Plant mechanic Eugene P. Kwasniak, canning/general area in Beloit, shared his manager's pride. "I've enjoyed working on the **SPAM** luncheon meat line since it started here one year ago. It's an all-out team effort — a 100 percent plus effort — and we're seeing the results in improved production."

WE'RE MORE IN TOUCH

Basic to cooperation is communication. Recognizing this connection, Company management encourages and strives to improve communication and working relationships. To this end, certain organizational changes have been made, including moving grocery products sales representatives into the San Francisco office located in nearby Hayward as a means of bringing together both meat products and grocery products sales operations.

The marketing departments for both the Meat Products Division and Grocery Products Division have been restructured into specific groups with different levels of management and experience. This new alignment encourages a



Top photo: At the University of Wisconsin-Whitewater, Sam J. Achilli (right), supervisor of professional employment, works with Richard L. Bailey, placement director, to plan this year's on-campus recruiting efforts for the Company.

Bottom photo: Developing the Latin market in Miami, Fla., was a big challenge for a young man who spoke no English when he arrived in Miami from Cuba. But Juan Carlos Monzon credits Company teamwork with his success in the marketplace. "I have never before worked for a company where everyone is so helpful and willing to work for the benefit of others. I am extremely proud to be a part of Geo. A. Hormel & Company."



Top and center photo: Refreshments and games for children of all ages were enjoyed by the large group of employees and family members attending the Atlanta, Ga., meat products/grocery products family picnic last summer.

Bottom photo: At many other Company locations, Hormel families gathered together to enjoy leisure-time activities. In Beloit, Wis., boat rides were a part of the festivities at the employee family picnic.

Returning to plant production, the Company has filed a patent application on the first successful commercial coextrusion process in operation in the United States. This very complex sausage stuffing and processing system required the dedicated teamwork of Hormel engineering, R & D, corporate quality control and Ottumwa operations personnel, as well as non-Company experts at Bal Chem Corp., Red Arrow Co., and the Northfield Company. The combined efforts resulted in a unique continuous system that successfully meets Company processing specifications.

Cheri B. Bach, R & D home economist, works with counterparts within the food industry to develop recipes using products from one or more major companies. The new recipes appear in advertisements or point-of-purchase promotions. "Tie-in promotions with manufacturers of products that complement our own are common and mutually beneficial," noted Bach. "Activities of this type support the production, sale and enjoyment of Hormel products."

WE'RE MORE TEAM ORIENTED

The well known practice at Hormel of worker helping co-worker is satisfying and important. Ronald F. Krebs, manager of the Houston (Texas) meat products plant, reported an excellent example.

"On one occasion last summer, the day shift was unable to complete a large order of 12/1 **Frank 'N Stuff** franks because of problems with the 614 machines that run the product. The line ran until 5:30 when the night crew arrived. This crew normally operates the Multivac and performs table work, but they took over on the **Frank 'N Stuff** franks order. They operated the line with minimum delay time, mostly because the night mechanic stayed throughout the evening — his first time with the line as well.

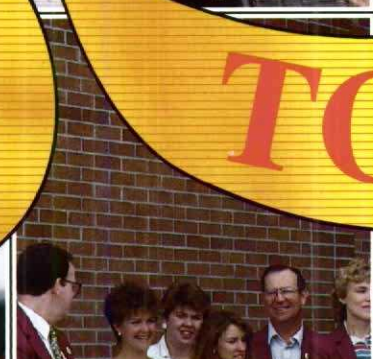
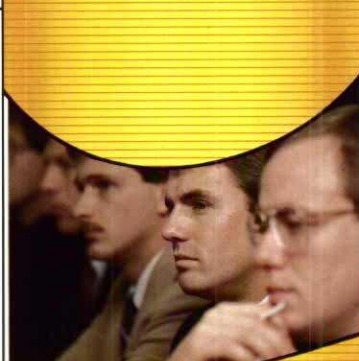
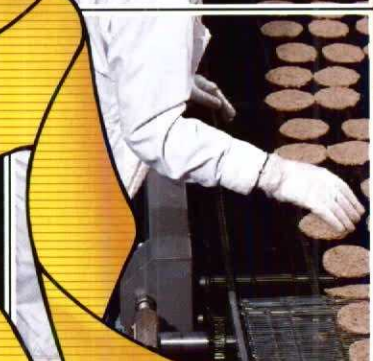
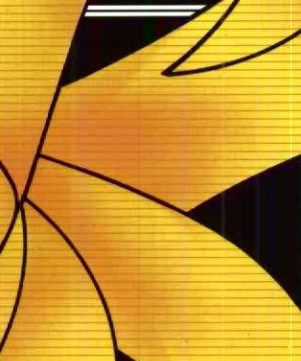
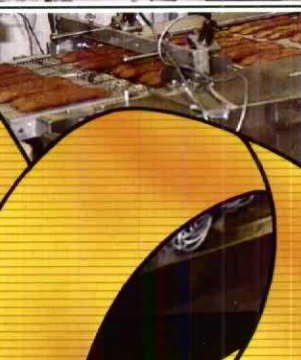
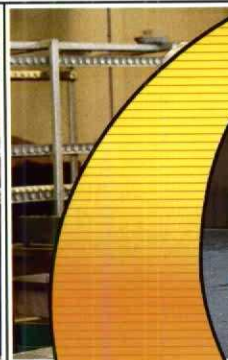
"Through their cooperation and effort, the order was filled," praised Krebs.

"Ask not how it will benefit me, but how can I better contribute to the total."

Julian S. Snow
Southwestern Regional Manager
Grocery Products Division
Dallas, Texas

Throughout the Company, personnel report outstanding examples of co-workers willing to "go beyond the call of duty" to help each other. Peter J. Hoeper, manager of sales services for the Grocery Products Division, reported a late Wednesday telephone call requesting signs for a meeting the following week to introduce **Not-So-Sloppy-Joe** sloppy Joe sauce in San Francisco, Calif.

"Since it was after 4 p.m., I was unable to get the wheels in motion for silk screening these signs until Thursday morning. At that time, Jim (James D.) Ingersoll in silk screening reviewed our needs and went forward with the request, determined to meet our Friday afternoon deadline. As a result of his interest and hustle in completing the job, the San Francisco district enjoyed the positive reinforcement that these signs reflected for this product."



TOGETHER



On a continuing basis, the Corporate Engineering Division works with plant managers and departmental leaders in manufacturing to develop ways to save energy and to maintain or improve our various plant facilities.

At Hormel, customers are an important part of our team!

Special requests from good customers such as Circle K of Phoenix, Ariz., bring out the best in our team creativity. Recently, a request from Circle K and Company sales representatives based in Phoenix for a specific type of slicing ham was conveyed to Delmar W. Doe, director of prepared and fresh sausage production; Leslie W. Colling, director of cured and smoked meats production, and Don L. Pohlman, director of the Foodservice Division. They, in turn, called on the creative resources of Michael J. Benson, development leader, Process Development, for R & D. In our experimental kitchen, with technology not previously tested within our Company and probably not within the industry, a sample ham was developed.

The ham fit Circle K's requirements perfectly. Thanks to the combined energies and commitment of R & D, Foodservice Division sales, quality control and Fremont production employees, Hormel was again able to demonstrate its quality, service and commitment to excellence attributes.

Our producers and suppliers are also a part of the "Hormel team." Listen to Eugene E. "Gene" Sammon, Jr., director of refineries and feeds. "New ideas flowing from producer to feed dealer to our feed sales representatives have made the team concept a reality. Working with feed dealers, our Feed Division sales people have become instrumental in leading the way toward more efficient animal production."

"In the management recruiting area of the Corporate Personnel Department, we refined our system of recording and filing data. This not only makes the information more accessible but enables us to obtain a more accurate cost per hire figure and identify ways to reduce that cost."

Jean E. Fitzlaff
Secretary
Austin, Minn.

"If I have a question on feed efficiency," said Steve Myhre, Waltham, Minn., farmer, "the Company feed sales representative or livestock buyer can usually answer it. If he can't, there is always somebody back at Hormel who can. Hormel is receptive to our ideas," Myhre continued, "and it's good to have Hormel expertise to fall back on. The Company has also developed a recordkeeping system for producers that I truly appreciate. I'm more than satisfied to be working with Hormel people."

Producer Larry Larson, Sargeant, Minn., pointed out that he shares a Company goal: to offer a uniform quality product to the consumer. "Hormel probably has the best system of buying hogs in the United States," said Larson. "Even though the grade-and-yield system isn't perfect, their program goes a long way toward guaranteeing that the consumer will receive the same product weekly. They've steered us right as to when to sell and when not to, and they've given us an incentive to produce a better product for a better price," Larson concluded.



Top photo: Along with proper training, workers' conformity to safety requirements has created a safer workplace. Raymond I. Opsahl, Smoked Meats Manufacturing Department in Austin, Minn., is an experienced Hormelite who knows the value of sound safety procedures.

Bottom photo: Richard B. Brucker, food technologist. New products are developed in R & D with food technologists performing market tests and supervising production through full-scale plant operations.

WE'RE MORE COMPETITIVE

Cooperation among our talented people has given the Company a competitive edge. One example is the installation of the computer system known as TRRIMS (Transportation Rate/Route Information Management System). This system controls freight pricing and transport service selection and has provided a transition from regulated to marketplace prices for transportation.

Operative within the Corporate Offices and major plants such as Austin; Fremont; Stockton; Ottumwa, Iowa; Beloit, Wis., and Atlanta, Ga., TRRIMS has saved the Company more than \$2 million in freight costs. "TRRIMS' success is a credit to the cooperation of all employees," emphasized Kenneth R. Parmenter, manager of traffic research and rates.

WE'RE MORE CREATIVE

The ongoing practice of combining our creative energies has put Hormel in the forefront of the food industry. Consider these major achievements among many engineering-related projects:

The unique **Q-Pak** plastic container for **Short Orders** individual canned servings; the tri-seal **Little Sizzlers** pork sausage package; a new easy-peel bacon package, and vacuum packed tray sizes of boneless fresh pork cuts — all produced through the cooperation of marketing, manufacturing, engineering and research and development.

Continuation of the \$10 million renovation in Fremont, the introduction of new technology and the modernization of existing operations, are the results of manufacturing and engineering teaming up at both corporate and plant levels. The startup of operations in the remodeled and expanded Algona (Iowa) dry sausage plant and installation of a new coextrusion filling process in Ottumwa for a line of Hormel meat snacks also illustrate ways in which many Company areas get involved. They consult, collaborate and work together to complete a project for the benefit of everyone.

A cooking and packaging breakthrough — **Broiled & Browned** dinner meats — for full-muscle meat entrees such as pork chops, choice beef steak, breast of chicken and fish fillets is the product of research and development again working with many groups throughout the Company willing to function as a team and having a spirit of working together for each other's success.

"The employee relations programs and Company-sponsored events have helped create a good attitude and a feeling of closeness throughout the plant."

Alan D. Hinz
Dry Sausage Department
Austin, Minn.



Top photo: As important members of our team, our customers, such as these touring the Davenport, Iowa, gelatin/specialized proteins plant, are welcome to see firsthand the standard of operations behind the Hormel name.

Bottom photo: Our Feed Division sales representatives have become instrumental in leading the way toward more efficient animal production. Harold A. "Skip" Mayhew (left), feed sales territory manager, visits with Bill Ehlers, Cedar Valley Feeds, LaPorte City, Iowa, about the diversified line of Hormel feeds.

Another Los Angeles teamwork story, this one from the meat products side, comes from James J. Koehn, manager of the Los Angeles sales district and distribution center. "We're better together in L.A.," he reported. "Pepperoni Product Mover displays were authorized in Ralphs Grocery Company's 130 stores in southern California for a recent promotion. The only catch was that the buyer, Jerry Lewis, advised Tom (Thomas W.) Austin, our meat products key account sales representative, that he would have to assemble the displays in the stores the week prior to the running of the feature ad. Tom needed help as the stores are scattered throughout southern California. All 14 area sales representatives teamed up to get the displays in place and stocked prior to the Ralphs' ad. This advertisement generated nearly 6,000 cases of **Hormel** pepperoni sales.

"This is our third ad with Ralphs Grocery Company using these product movers," added Koehn, "and each time the L.A. team working together has made the difference."

From Jackson, Miss.: "Working together has put Geo. A. Hormel & Company on the map in Mississippi," reported Jon K. McClain, meat products district manager. "The teamwork of the Corporate Deli Division, Southwest regional manager Dave (David E.) Keniston, and Jackson sales representative John W. Heitzman has made Hormel the key meat supplier for the Lewis Super Valu deli department. Today, the **Hormelicatessen** deli line theme is the backbone of their entire program," McClain said.

"Prior to the April deli seminar, we didn't have one item in the Lewis Super Valu warehouse in Indianola, Miss.," McClain noted. "Then, with the help of the Hormel Deli Division, we had a very successful presentation involving the new **Hormelicatessen** product line and deli marketing program.

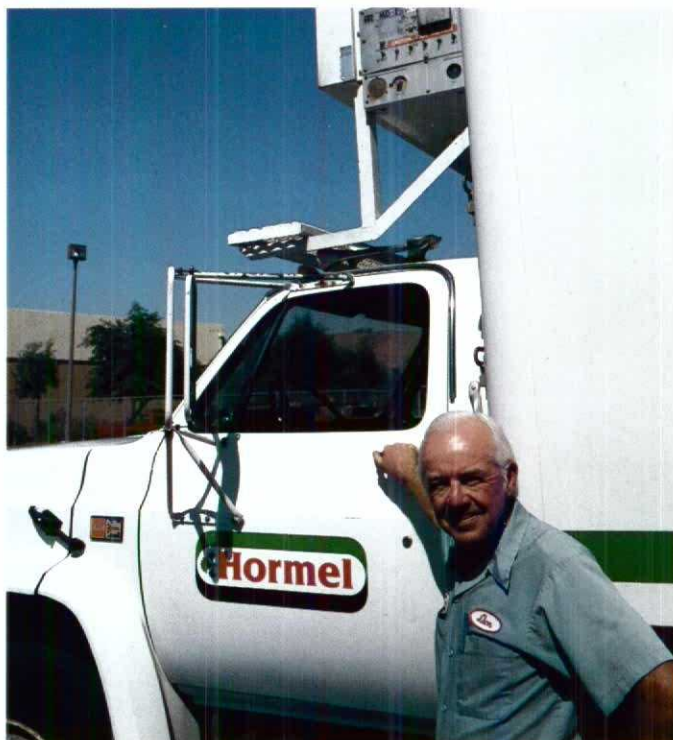
"Lewis Super Valu became the major Hormel deli customer in our district with 12 new items and three more on the drawing board. This is a direct result of the seminar and the Hormel 'team' attitude." McClain also pointed out that more than 150 delis are now served by this important warehouse customer.

"I've always had the feeling that my job as a driver was not only to deliver product but to treat the customer as part of our family. Without him, we have nothing!"

Donald E. McGovern
Truck Driver
San Francisco, Calif.

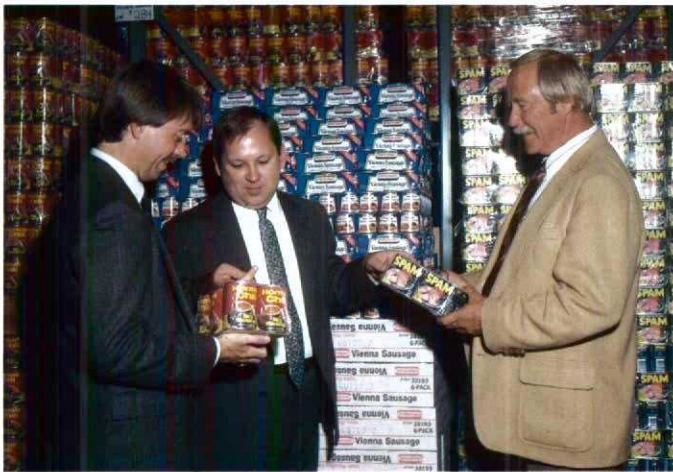
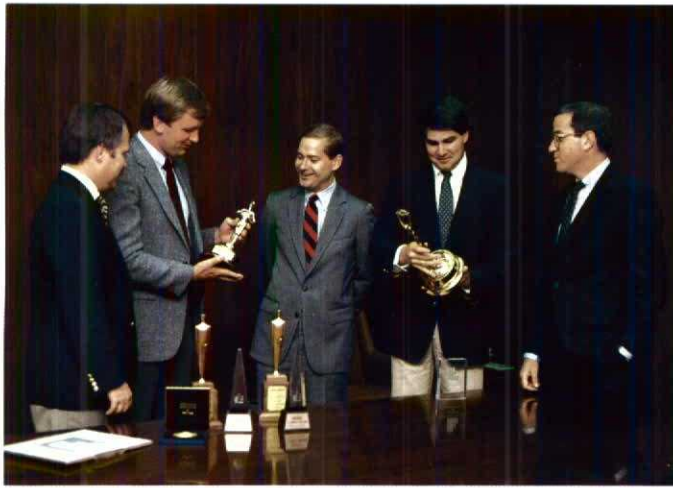
Possibly the most significant example of teamwork that occurs within the Company is the day-to-day working together of our production people. Daniel Hoppes, Cooked Ham Mold Department in Fremont, described how management and production working jointly can achieve important workplace improvements.

"Through a determination to work together," Hoppes said, "the job of manually hauling pans to the wash area has been made extremely effortless. We now use a tractor to pull more pans with less exertion — a move that helps reduce our lost-time injuries as well."



Top photo: Leslie L. Colling, director of cured and smoked meats production, and Amy M. Templeton, director of consumer affairs, discuss the growing consumer desire for leaner Cure 81® hams and the importance of adhering to product specifications in order to maintain consumer satisfaction.

Bottom photo: Our Company is better than ever thanks to people like Donald E. McGovern, truck driver at the San Francisco, Calif., distribution center, who recently completed 23 years of safe driving for the Company. In turn, McGovern said the Company makes his life better. "I try to reflect my good feelings about the Company to my customers each day," he exclaimed.



Top photo: We bring our creative people together with the best outside talent available. Our teamwork with BBDO, for example, has resulted in prestigious awards for Company broadcast and print advertising. Pictured are Richard J. Johnson; Gary A. Jones; Jake Schroepfer, BBDO; Joe C. Swedberg, and Robert W. Jackson, also of BBDO.

Center photo: Through coordination of effort, cooperation and communication, Hormel has enjoyed a very successful entry into the warehouse membership store market. Among the many Company contributors to this effort were Randal S. Kemnitz, Richard L. Crane and Gerald I. Walker.

Bottom photo: In San Antonio, Texas, meat products, grocery products and Farm Fresh Catfish were teamed together in a 31-item display advertisement for Handy Andy over the Labor Day holiday. Pictured are Bob Hurla, Handy Andy; Robert J. Plombon; Mike Crain, Handy Andy, and Philip V. Virgin.

"When all the links are together, Hormel sizzles!"

Galen L. Thiele
Meat Products sales representative
Tulsa, Okla.

Not long ago, during development of an important new product at our Fremont (Neb.) plant, it soon became evident that uniformity was going to be a problem unless some changes were made in the production of a new link sausage item. Stuffer operator LuVerne D. Sawyer, Sausage Manufacturing Department, explained that the problem was solved by the cooperative efforts of foremen and production people.

"Working with the foremen," Sawyer said, "we experimented with the linker and found that portioning a constant amount of meat and then hand twisting between each portion produced a more uniform product with less rework at packaging."

Working together made it happen!

Thomas P. Petersen, Dry Sausage Department in Austin, Minn., stresses that monthly discussions involving supervisors and hourly employees, called VIP sessions, contribute to this kind of cooperation.

"VIP (Voluntary Input Program) helps to promote easier working relationships and also helps in solving problems together," he said.

Garnet H. Butler, Tom's co-worker in the Dry Sausage Department and a 41-year Hormel employee agreed. "The attitudes created by programs involving employee input have helped to make everyone work better together and to take responsibility for the job being done."

Like our production people, the Company's sales staff respects the value of teamwork. Larry W. Mills, grocery products district manager in Los Angeles, Calif., credits joint involvement of Hormelites in all phases and at all levels for what he calls the West Coast's biggest sales success story in recent history.

When a leading warehouse club market, the Price Company, began encouraging multi-packaging of retail-size products in four- and six-pack quantities, Michael D. Tolbert, grocery products district manager for Oklahoma #541 delivered the six-pack **Hormel** Vienna sausage, developed through the creative designing of Douglas R. Reetz, grocery products district manager in Phoenix, Ariz., and David A. Amyrauld, grocery products sales representative in Los Angeles.

With the success of multi-pack **Hormel** Vienna sausage, Tolbert teamed with Mills and Eric A. Brown, then Western Division regional manager, to pursue more multi-pack production and sales opportunities for the Company. Within the year, Hormel executives met with senior management of the Price Company. A multi-pack shrink-wrap machine was purchased and installed in the Stockton (Calif.) grocery products plant. The number of meat products and grocery products sold to the Price Company for warehouse store sale multiplied many times over. And, as the concept of warehouse membership stores spread across the country, so did the Company's success in meeting multi-pack needs in other regions.

In only four years, we will deliver a successful, energetic American company into its second century.

We speak with confidence based not only on our 96 years of enviable growth but also with the confidence of people who have surmounted difficulty and emerged stronger.

We have an uncommon spirit at Hormel. We share a sense of pride; we work as a team, and we seek innovative roads to reach our goals. Our successes are sustained by the collective efforts of people with vision and commitment. People who, for generations, have worked together to seek new knowledge, new insights and new ideas.

The spirit that drove the Company's success in the early 1890s and beyond still prevails today. Throughout our offices and plants, among our employees, producers, suppliers and customers, we are committing time, money and enormous creative energy to preserve the quality that is our heritage — not merely quality of product but quality in the way Company people live and work together.

This special section is dedicated to the family of Hormel employees who continually work better together to make our past, present and future a brilliant success. Tracing the people and programs profiled in this section, from Atlanta, Ga., and Jackson, Miss.; from Austin, Minn., and Los Angeles, Calif., from New York, Texas and Ohio, the message is clear:

WE'RE BETTER TOGETHER!



Corporate Profile

Geo. A. Hormel & Company, founded by George A. Hormel in 1891 in Austin, Minn., is a federally inspected food processor engaged in the processing of livestock into meat and meat products, the production of a variety of prepared foods, both meat and nonmeat, and the marketing of these products throughout the United States and in many foreign countries.

The principal products of the Company are meat and meat products which are sold fresh, frozen, cured, smoked, cooked and canned. The products of the Meat Products Group include fresh and frozen meats, sausages, hams, wieners and bacon. The Prepared Foods Group products include canned luncheon meats, stews, chilies, hash and meat spreads.

The Company's products are sold in all 50 states by sales representatives operating in assigned territories coordinated from district sales offices located in most of the larger United States cities and by brokers and distributors who handle carload lot sales.

The Company has manufacturing plants in Austin, Minn.; Fremont, Neb., and Springfield, Mo., that slaughter livestock for processing. In addition, processing plants are located in Algona, Iowa; Austin, Minn.; Beloit, Wis.; Dallas, Texas; Davenport, Iowa; Fort Worth, Texas; Houston, Texas; Knoxville, Iowa; Oklahoma City, Okla.; Ottumwa, Iowa; Renton, Wash.; Stockton, Calif.; Tucker, Ga., and Wichita, Kan.

Hormel also operates nine distribution centers along the West Coast, South Atlantic Coast, Gulf Coast and Hawaii. Their main function is to provide dry and cold storage facilities for the distribution of products to local market areas. Distribution

centers are located in Charlotte, N.C.; Chattanooga, Tenn.; Hayward, Calif.; Honolulu, Hawaii; LaMirada, Calif.; Montgomery, Ala.; New Orleans, La.; Orlando, Fla., and San Antonio, Texas.

Wholly owned subsidiaries of Geo. A. Hormel & Company include FDL Marketing, Inc., Dubuque, Iowa; Farm Fresh Catfish Company, Inc., Hollandale, Miss.; Jennie-O Foods, Inc., Willmar, Minn., and Algona Food Equipment Company, Algona, Iowa.

Hormel also operates in international areas, including the Philippines, Japan, Dominican Republic and in various European countries through Hormel International Corporation, a wholly owned subsidiary. Hormel International Corporation owns a domestic corporation, Vista International Packaging, Inc., a food packaging company based in Kenosha, Wis., and Hormel FSC, Inc., a small foreign sales corporation, headquartered in Austin, Minn., which engages in export related activities.

Geo. A. Hormel & Company products are sold under a number of well established brand names. The more commonly known trademarks which are important to the Company's business are **Hormel, Black Label, Broiled & Browned, Cure 81, Curemaster, Di Lusso, Dinty Moore, Frank 'N Stuff, Homeland, Light & Lean, Little Sizzlers, Mary Kitchen, Range Brand, SPAM, Super Select and Wranglers**, among others. Product names appearing in boldface in this 1986 Annual Report to Stockholders are trademarks of Geo. A. Hormel & Company or its subsidiaries.

Hormel employs over 6,000 people and has approximately 6,100 stockholders.

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Letter to Stockholders, Employees and Friends

It is with great pride I discuss the remarkable strengths the corporation demonstrated in the face of continued industry strife, labor difficulties and the sharpest increase in the cost of raw materials ever experienced. Amid these difficult circumstances, the corporation established new records for profit and volume. In our view, it is an extraordinary accomplishment and a credit to everyone in the organization.

Our record dollar sales were just a few million short of \$2 billion as sales increased by more than 30 percent. Although FDL Foods, Inc., supplier for our Company subsidiary, FDL Marketing, Inc., was on strike during much of the fourth quarter, well executed sales campaigns provided the impetus for the Company's finest quarter ever recorded in both profit and volume.

While we are proud of these new records, all of our objectives were not accomplished. Margins were not at levels consistent with Company goals. Pork margins continued to be negative and, therefore, offset improvements made by other divisions. We remain confident that with greater pricing stability it will be possible to attain aggressive profit goals established for the year ahead.

Significantly, while experiencing the labor disruption, the Company was able to keep focus on expanding market shares and, at the same time, attend to our overall plan of reorganizing manufacturing operations on a more efficient and productive basis.

Our financial strength allows us to determine creative new business ventures that will expand the corporation. With this objective in mind, your management has long considered the fast-growing poultry business as one that would provide considerable synergy with our existing product lines. After several months of discussion, an agreement was reached in December, 1986, for acquisition of the largest privately owned turkey operation and the

third largest overall in the country. The firm, known as Jennie-O Foods, Inc., is owned by Earl B. Olson and his family. It is a fine, highly successful organization. The employees as well as the business will blend nicely with our own. It will be our intention to operate the business as a subsidiary while providing support in research and development, marketing and engineering.

During the early months of the new year, the Company will be launching one of the most important projects ever. In January, a revolutionary new microwavable container with dinner entrees will be introduced that will compete favorably with those customarily purchased in the frozen foods section. However, this new product line will be both microwavable and shelf stable.

Also scheduled for market debut are two additional product concepts seen as having great promise. One, **New Traditions Broiled & Browned** microwave-ready meats, will have a complete line of precooked broiled products, including beef steaks, pork chops, fillet of fish and breast of chicken. At the same time, the Company will be forwarding a consumer-ready retail package for fresh pork which, when combined with our patented process, will provide more than two weeks of shelf life.

During the year, efforts continued to organize the corporation to accomplish more efficiently all the tasks that must be completed in a growing company. Consistent with the objective of attaining efficient production throughout our manufacturing operations, the Engineering Division and the Industrial Engineering Department were placed with the Operations Group under the supervision of William R. Hunter, group vice president.

Early in the year, Robert F. Potach, group vice president of the Administrative Group, a

member of the Executive Committee and a director of the corporation, retired after nearly 39 years of outstanding service. These very large responsibilities were filled by one of our most experienced employees, Don J. Hodapp, vice president of strategic planning and development, who was elected to succeed Potach as group vice president. Mr. Hodapp also replaced Mr. Potach on the Executive Committee and as a member of the Hormel Board.


At the same time, Charles D. Nyberg, senior vice president, corporate secretary and general counsel, with responsibility for human resources and public affairs, was elected to the Company's Board of Directors. He was also named a member of the Executive Committee.

In addition, Richard W. Schlange, Company controller since April, 1985, was elected a vice president of the Company.

In May, Frank M. Brown, vice president of engineering, retired after leaving an indelible imprint on the Company with the design and construction of most of our plant facilities. We were fortunate to have a very experienced individual, James N. Rieth, vice president of manufacturing, who is an engineer by background, ready for this important assignment.

At the October Board meeting, Dr. W. Eugene Mayberry, chairman of the Board of Governors for the Mayo Clinic and president and chief executive officer of the Mayo Foundation, was elected to the Hormel Board. We are extremely pleased to have his expertise in both business and medicine.

The finest finish ever recorded in a fiscal year and the many challenges faced are now behind us. The addition of a distinctive new business and the launching of several new product concepts leave all of us in the Company extremely enthused and excited for the year ahead and those beyond.



R. L. KNOWLTON
Chairman of the Board
President and Chief Executive Officer



The Year in Review

Fiscal 1986 marked the 95th anniversary of Geo. A. Hormel & Company. It was a milestone year, a year in which the Company enjoyed the best financial performance in its history.

Never were the individual and collective commitments to excellence more evident than in the past year which, in all major respects, was a record-breaking one for the Company. Sales, total earnings, earnings per share, working capital, net worth and book value per share were the highest ever. Capital additions, totaling more than \$300 million in the past 10 years, also provided the Company with increased earnings power, and the continued launching of an impressive array of new and exciting products helped lay the foundation for further growth and profitability.

These achievements are especially gratifying in view of the many obstacles presented during the year. The record year was accomplished despite the unsettling effect of steadily declining red meat consumption, industry overcapacity, a prolonged strike and disruption of operations at the Austin (Minn.) plant, a decline in pork supplies and an accompanying escalation in raw material costs, and internal operating challenges that inevitably beset any major enterprise. Geo. A. Hormel & Company emerged from this difficult and challenging year stronger and determined to retain its momentum as one of the most successful companies in the highly competitive food industry.

Sales Dollars Approach \$2 Billion

For the third consecutive year, a new sales dollar record was established, this one leaving the Company just shy of joining the select group of corporations that have attained \$2 billion in sales or revenues. Total sales for fiscal 1986 were \$1,960,237,000, a gain of 30.5 percent, or \$458,002,000, over last year's record of \$1,502,235,000.

Contributing to this strong sales improvement is the Company's continued effort to become more of a market driven and consumer oriented producer of quality branded, value-added food products. The success of this heightened focus is illustrated in solid volume increases for many recent market introductions. In addition, this generation of new products and line extensions and major core brands of the Company benefited from expenditures in advertising and marketing that approached \$71.5 million. Also contributing favorably to the sales increase and corresponding rise in tonnage volume was the agreement with FDL Foods, Inc., whose products are marketed through FDL Marketing, Inc., a wholly owned subsidiary of Hormel.

Net Earnings at All-Time High

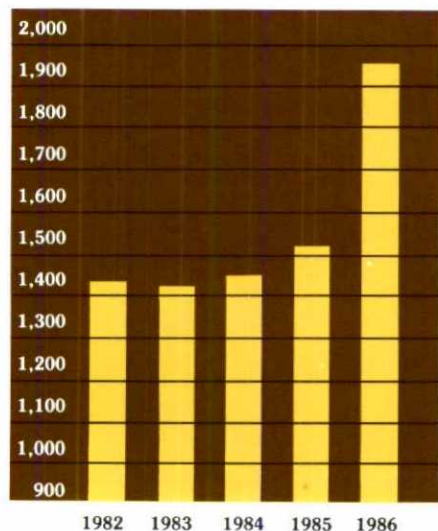
The Company's financial performance was capped by record net earnings in 1986 of \$39,079,000. This is an increase of \$461,000, or 1.2 percent, over the previous record of \$38,618,000, established one year ago. Earnings per

Bottom bar graphs:
Net sales and net earnings
are highest in Company
history.

Right photo: This
expansive Hormel exhibit
is used regularly at
national trade shows.

NET SALES
(Millions of Dollars)

\$1,960.2



NET EARNINGS
(Millions of Dollars)

\$39.0





share were \$2.03, an increase of \$.02 per share over 1985 earnings of \$2.01. When related to return on dollar of sales, net income was 1.99 cents in 1986 as compared to 2.57 cents the previous year.

First quarter earnings showed an improvement over the year-earlier net income while second quarter results dropped 26 percent, resulting in total lower earnings for the first half when compared to the same six-month period of fiscal 1985. Severe pressures on margins, caused principally by a sharp increase in pork raw material costs, contributed to a slight decline in net income for the third quarter which was offset significantly by a record-ending fourth quarter for the second consecutive year. Earnings for the concluding 13 weeks of the year amounted to \$16,031,000, a climb of 15.2 percent from the record \$13,910,000 attained last year.

The earnings improvement is particularly gratifying when considering that return of the Company's "flagship" Austin plant to normal operation was a lengthy, painstaking process. In addition, this all-around growth year was achieved while the Company was increasing investments in key areas such as research and development, product innovation and marketing, while operating in a considerably depressed economy. Also contributing to this performance was the Company's continuing cost reduction program. The ability to successfully respond to these serious challenges and to deal with concerns of considerable magnitude without experiencing significant adverse impact on overall performance attests to the Company's strength and the preparations that have been made for future progress.

Capital Additions

Over the years, substantial progress has been made in achieving Company planning goals as well as operational objectives. The new facility expansion program, initiated 15 years ago, is largely completed. The net effect of this long-term program of capital additions, which involved each major business segment, has been to ensure satisfactory production capacity for the Company's diversified product lines.

In light of what already has been accomplished, 1986 capital additions of \$21,477,000 were directed to increasing operating efficiencies and productivity in both new and existing plants. Improvements Companywide were directed primarily to continuing or

completing projects already underway.

Through the years, Hormel has financed most of its growth with internally generated funds, although external borrowing has been used for major projects.

Depreciation of \$30,741,000 was charged to operations during the year, an increase of \$2,654,000 from fiscal 1985 when this figure totaled \$28,087,000.

Cash Dividend Again Increased

Continuing to share its prosperity with the owners of the Company, the stockholders, on February 15, 1986, in accordance with a previous vote of the Board of Directors, the annual dividend on common stock was increased from \$.54 to \$.56 per share. The new quarterly rate of \$.14 a share was paid to those who were stockholders of record as of January 18, 1986.

This latest improvement, amounting to 3.7 percent, reaffirmed the Company's longstanding policy of increasing dividends commensurate with earnings growth. In addition, continuance of the quarterly cash dividends extended the corporation's record of uninterrupted payments. Since becoming a public company in 1928, Hormel has a dividend payout record of 232 consecutive quarters, or 58 years. Only 11 companies of the more than 750 listed on the American Stock Exchange have a longer history of paying consecutive dividends.

Total dividends paid and accrued in 1986 amounted to \$10,759,000, compared to \$10,375,000 the prior year, an increase of \$384,000.

STOCKHOLDERS' INVESTMENT
(Millions of Dollars)

\$339.9



Bottom bar graphs: Stockholders' investment and total assets showed strong improvement during fiscal 1986.

Top right photo: David N. Gardner, corporate manager of industrial relations, addresses employees at the Davenport (Iowa) gelatin/specialized proteins plant regarding improvements in the Company's health, welfare and pension plans.

Pension Trusts

The Company's provision for current and past services for Employee Pension Trusts was \$2,381,000. In 1986, the Company elected early adoption of Financial Accounting Standards (FAS) No.-87, "Employers' Accounting for Pensions." The effect of this adoption was to reduce 1986 pension cost by approximately \$5,700,000. Past service costs are amortized over a period of 30 years from the date of inception or date of amendment of the plans.

Financial Position Strong

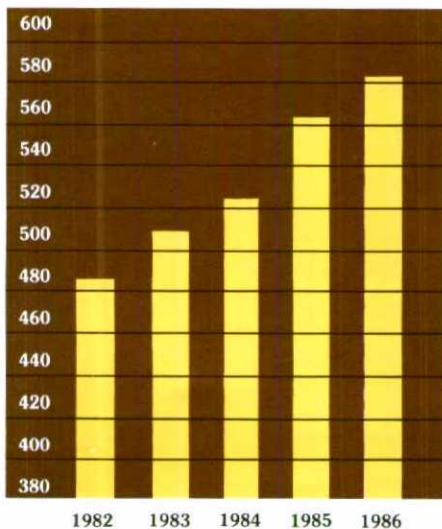
Other achievements during the year provide further support to the Company's financial performance. Stockholders' investment, book value per share, total assets and working capital are key profitability ratios which showed strong improvement.

At October 25, 1986, stockholders' investment amounted to \$339,925,000, an increase of \$28,320,000, or nine percent, over the 1985 year-end total of \$311,605,000. The book value of the 19,213,032 shares of common stock outstanding rose \$1.47 to \$17.69 at the end of 1986 from \$16.22 for the preceding year.

Total assets again increased, reaching a new record high of \$584,744,000, an improvement of \$23,805,000 over the previous record of \$560,939,000 set last year. The Company's working capital increased for the fifth consecutive year. The total at year-end was \$196,199,000, an increase of \$43,214,000, or 28.2

TOTAL ASSETS
(Millions of Dollars)

\$584.7



percent, from the fiscal 1985 amount of \$152,985,000.

Labor Relations

The labor dispute and strike which affected the Company's Austin plant for more than a year ended midway through the fourth quarter when a settlement, described as "the best contract in the meatpacking industry," was reached with Local P-9 of the United Food and Commercial Workers (UFCW) union.

The new four-year contract is comparable to agreements reached at seven other Company plants where contracts were due to expire September 1. In Austin, wages will reach \$10.70 an hour by the end of the third year and will be tied to a "me-too" clause with the Company's Fremont (Neb.) plant the fourth year. A two-tier wage system, under which workers hired last January were paid less than senior employees, was eliminated and a mechanism provided that allows collective bargaining representatives at the Austin plant to set a common expiration date in 1990 that coincides with those at other Hormel plants.

At the beginning of the calendar year, following five months during which the Austin plant had been shut down, operations resumed with members of Local P-9 given the first opportunity to claim the available jobs. The more than 500 who elected to return to work were joined by nearly 600 newly hired permanent employees. Determined to rebuild and reshape the Austin plant into the model facility for which it was planned, this group of employees succeeded in performing at levels unmatched by most seasoned workforces. By fiscal year-end, production and the quality of workmanship were equal to that of prestrike standards.

The most important factors in a company's accomplishments are the spirit and attitude of individuals throughout the organization. At Hormel, the dedication and understanding of a common purpose have made possible the advances of 1986.

Hormel has also long supported the national policy of equal employment opportunity without regard to race, religion, color, national origin, age, sex or handicap. The Company's policy embraces equality of opportunity for all employees with respect to such employment matters as hiring, training, promotion, benefits, transfers, layoff and recall.

FDL Marketing, Inc.

A two-year agreement was signed in fiscal 1985 with FDL Foods, Inc., Dubuque, Iowa, which led to the formation of FDL Marketing, Inc., a wholly owned Company subsidiary. The arrangement specifies FDL Marketing to be the sole customer of FDL Foods for the duration of the agreement, marketing all products manufactured by FDL Foods' two plants in Dubuque and Rochelle, Ill. In addition, the two plants are available to provide needed raw materials for Hormel operations and produce certain Hormel-branded products.

Fiscal 1986, the first full year of the agreement, proved the partnership to be a successful one. Company sales were expanded by approximately one-third, resulting in a favorable contribution to the year's overall profit performance. As part of the marketing agreement, Hormel has an option to purchase the stock or assets of FDL Foods. The decision to execute the option will be made on or before the August 29, 1987, expiration of the agreement.

Late in the fiscal year, labor differences stopped production operations at both FDL plants. UFCW Local 1218 in Rochelle and UFCW Local 150A in Dubuque ratified new contracts in October following strikes that began one month earlier.



Quality Improvement Process

Marking the beginning of one of the most far-reaching concepts in Company history was the implementation midway through the fiscal year of the Quality Improvement Process (QIP). QIP is designed to complement and refine the Company's already excellent quality systems and to extend quality improvement efforts throughout the organization.

QIP is an organizational commitment to meet more effectively consumers' growing demand for quality and the Company's own stringent standards for efficiency and workmanship. It assures that all operations and all employees have the knowledge and resources to effect a continual quality improvement in their individual areas of responsibility.

The ultimate goal of QIP is to produce products and services with no errors. This signifies a long-term commitment which will guide each individual in the Hormel family to understand better his or her role in promoting quality improvement. This is accomplished by personal involvement and support of the process.

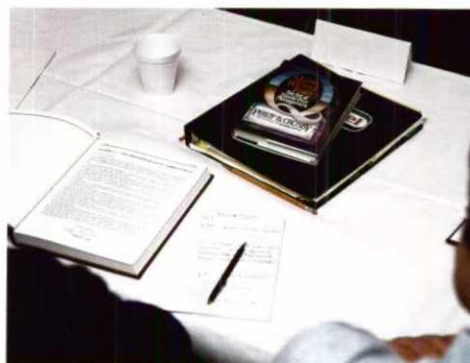
By the close of calendar 1987, more than 6,000 employees will have participated in extensive training programs provided by the Company using educational materials supplied by Philip Crosby Associates, Inc. The educational program introduced this past year was first provided for 34 Hormel executives. Throughout the summer and early fall, approximately 200 employees received training on how to implement

Left photo: This new logo identifies the Quality Improvement Process (QIP) at Hormel.

Bottom photo: Textbooks and related materials used by employees attending quality education system meetings.

Right photo: Hormel Limited (Japan) has been marketing canned gift meat packages for over 10 years.

Far right photo: Hot dogs produced by Pure Foods Corporation have become a traditional Filipino party fare.



and manage the 14-step Quality Improvement Process.

Training for the remaining employees is designed to familiarize them with QIP and the basic principles of quality management. Educational programs will provide each employee with an understanding of the language of quality and the techniques that must be applied to ensure quality improvement.

Quality Improvement Teams (QIT) are now organized at 24 Company locations. Responsible for monitoring the overall improvement process, these teams plan the process for their location, educate employees about quality concepts and implement procedures for measurement and evaluation of quality.

As the Quality Improvement Process builds on the already well established Hormel commitment to quality, it will serve to enhance every phase of the Company's business. The process will become an integral part of each employee's working life. It will develop into a Company culture whereby all energies and ideas will be directed to the important objective of furthering the quality of Hormel products and services.



International Operations

Hormel International Corporation (HIC) continued in 1986 to strengthen its position as an international enterprise.

In Japan, the heaviest period for canned meat sales occurs during two peak gift giving seasons — June/July and November/December — during which time specially designed gift packages are marketed and sold.

Hormel Limited (Japan) has been marketing canned gift meat packages for over 10 years. The original gift package contained several different brands. Four years ago, a premium gift set comprising a select number of top quality products was introduced under the **EXL** label. This past year, following extensive market research studies, a new line of canned beef items, including corned beef, corned beef hash, beef stew, beef curry and beef stroganoff, was marketed.

This new introduction was well received by the various retail outlets in Japan. Sales projections for the winter gift season just concluded were expected to be 40 percent higher than the volume sold during the previous summer gift buying season.

In the Philippines, Hormel International increased its capital investment in Pure Foods Corporation, supporting an expansion into aquaculture prawn raising. This project, featuring one of the largest prawn hatcheries in the world, will provide Pure Foods Corporation with the capability of offering fish farmers baby prawns to be raised in natural ponds. The mature prawns are then harvested and sold back to Pure Foods for grading and processing, after which the finished products are earmarked for sale into selected domestic and export markets.

This aquaculture project is the newest and most sophisticated operation of its kind. It enables Pure Foods Corporation to extend their food processing, marketing and sales activities beyond their present meat and poultry operations. HIC has an equity position in Pure Foods as well as a technical licensing agreement.

Fiscal 1986 proved to be another strong year for Vista International Packaging, Inc. The Kenosha, Wis.-based casing company continues to strengthen its market share position despite a downward trend in the sausage industry. Particular attention is given to the development of new tubular packaging materials that meet specific customer requirements.

Studies are underway to evaluate potential additional foreign operations for HIC. The guidelines of any foreign expansion will be the same as for the Company's domestic business — to serve the customers profitably with a high quality product at a fair price.



Operations Group

With specific and well defined objectives as a guide, each employee and facility in the restructured Operations Group moved forward in 1986 intent on contributing to what is perceived to be the greatest period of internal growth in Company history. Their goal: To help the Company become an efficient, low-cost producer and effective marketer of quality consumer products and services.

Foremost in the minds of the Company's experienced management team was improving the quality of every product sold. This challenge was supported by a workforce of thousands of talented and dedicated men and women who directed their energies and skills to achieving the highest possible quality standards. Also receiving attention was the personal safety of each employee and a determination to reduce lost-time injuries. By year-end, the continuing emphasis on improving safety measures and a safe work environment were principal factors for the distinction Hormel enjoyed as having one of the best safety records in the food processing industry.

New processes and equipment, designed in most cases by Hormel research and development professionals and engineering specialists, were modernizations made to increase efficiencies and enhance production capacities. New technology was installed in nearly all of the Company's 17 manufacturing and processing facilities which helped lower manufacturing costs and give support to targeted marketing and product development.



Restructuring Completed

The completed three-year restructuring of the Operations Group has made possible this improved performance. First announced in 1983, the far-reaching alignment has brought together into one area responsibility for Company manufacturing facilities, including grocery products, meat products and dry sausage. The refined structure expands the reach of production management people, leads to more efficient use of manufacturing capabilities and capacities, assures greater attention to economies and enables all plant locations to apply the technology the Company owns and will develop.

In the second quarter, an additional realignment shifted responsibility for Engineering Division activities to the Operations Group. Bringing together these functions offers greater flexibility in responding to the challenges of day-to-day production needs, improves overall corporate direction and provides for effective management control of resources. The closer alliance created by the reporting relationship finds engineers working alongside plant supervision to share new technology and valuable experience, thereby ensuring improved communication and greater cooperation.

Improving Safety

Throughout its 95-year history, Hormel has actively pursued improved working conditions and reducing the potential of work-related injury to its employees. The highly labor intensive meat industry traditionally reports more lost-time injuries than most others in the manufacturing sector. The National Institute of Occupational Safety and Health (NIOSH) describes meat slaughtering and boning as the third most hazardous industry in the United States.

Despite this industrywide problem, Hormel has made significant and encouraging improvement in its employee safety record. An increased emphasis placed on employee education and the careful attention given to safety programs resulted in fiscal 1986's safety performance record as being the best in Company history. Hormel employees have successfully reduced lost-time injury rates to a figure well below the industry average.

Left photo: Stanley B. Rasmussen, Austin, Minn., plant foreman, reviews width and thickness specifications and cutting and trimming procedures for pork bellies with Dean P. Ketterling, production employee.

Right photo: Continuing on-the-line inspection of product is a daily requirement at all Hormel plants. Jill E. Breiling, quality and process control engineer in Austin, Minn., checks Wranglers® smoked franks for color, texture and overall quality and uniformity.



The most dramatic improvement occurred in Austin where lost-time injuries dropped more than 80 percent from the previous year. That achievement overshadowed a 20 percent reduction in injuries realized one year earlier. Austin plant employees ended fiscal 1986 with fewer than three lost-time injuries per 100 employees — a sharp and extremely favorable safety performance when compared to the average 16.2 lost-time injuries recorded in 1984 by the entire U.S. meatpacking industry. The Austin plant now possesses one of the best safety records of any slaughtering plant in the country. In addition, several other Company manufacturing plants and distribution centers completed the year without a lost-time injury.

These safety gains can be attributed to a variety of important factors. Safety committees, which have been active for many years, are at work with renewed zeal. Ergonomics, or human engineering, in addressing such topics as work station design and layout, hand tools and equipment, lighting and noise levels, is contributing to greater employee health, safety and comfort. New work aids such as wrist supports and back vests help alleviate these types of injuries. Increased job rotation, now practiced on many production lines, reduces injuries associated with repetitive motion jobs and allows employees to receive training at different work stations — an added benefit that makes each employee a more valuable member of the Hormel family.

Equipment developed or modified by Hormel engineers helps free employees from especially tiring or physically demanding tasks. A notable example in 1986 was the on-line test of a prototype automatic carcass splitter. Company designed and developed, this

state-of-the-art system eliminates possible danger from the moving saw blade and ends repetitive strain to the arms, wrists and back of the employee. At the same time, important quality and yield improvements are achieved.

Plant Renovations and Additions

Fiscal 1986 marked the near completion of the ambitious three-phase renovation program at the Fremont plant. The entire project, which began in 1984, will be completed in the current fiscal year.

Of major significance was the installation of a highly automated ham massaging and tumbling system and mechanical ham boning equipment. Used in the processing of premium hams like **Cure 81** ham, this technologically advanced line improves protein yield, assures efficient and equal processing of all hams and provides important labor efficiencies. The excellent performance of this system has prompted plans to add similar equipment to the Austin and Ottumwa (Iowa) plants in 1987. Another innovative system, an automatic deboning machine used for the removal of bones from picnics, was installed in Fremont in August.

Other major improvements in Fremont included a high-speed processing line for **Little Sizzlers** pork sausage that doubled production capacities without affecting labor requirements and new vacuum packaging equipment for smoked sausage and sliced bacon. The new materials handling and market shipping facilities have provided complete and accurate inventory of all warehoused product and raised distribution efficiencies. Renovation and expansion of the inedible rendering and pork cutting departments were underway at the close of the calendar year. Expenditures for



Far left photo: Michael E. Slette, relief foreman in Austin, Minn., used his artistic talents to design this poster which stresses the commitment Company employees have to produce top quality products and work safety.

Boners' aprons, safety glasses, ear plugs and hard hats are representative of the many personal safety and protective equipment items provided to employees Companywide. Other personal safety items issued to employees include face shields, steel mesh gloves, arm guards and dust masks.

Right photo: A new packaging machine at the Stockton, Calif., grocery products plant, operated here by Virginia Jaurequi, is used for packing multi-item cases of selected Hormel products sold exclusively to membership warehouse stores.

Bottom left photo: John A. Wiesen, smoked meats pack employee in Fremont, Neb., loads Old Smokehouse™ smoked sausage links into the new film packaging machine.

Bottom right photo: The development of a new four-item line of meat snack sticks led to the installation of new coextrusion filling and vacuum packaging equipment in Ottumwa, Iowa, shown here with machine operator Frank E. Reed, Jr.

this third and final phase totaled nearly \$5.3 million and raised to more than \$10 million the capital expended in the Company's second largest plant facility.



At the Stockton (Calif.) grocery products plant, a new vegetable processing room was added and equipment installed to improve the quality of vegetables used in **Dinty Moore** beef stew. A replacement manufacturing line for **Hormel** tamales reduced preparation time and improved efficiency and quality while the installation of new and efficient coolers provided for more uniform temperature control in processing areas.

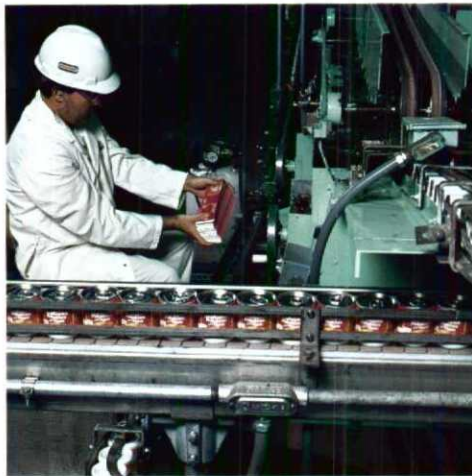
Operations commenced early in the year in the 36,000 square foot addition to the Algona (Iowa) dry sausage plant. This renovation and expansion project, started in fiscal 1985, provided for improved dry room facilities, enlarged refrigerated and frozen storage capacities for incoming raw materials and an expanded warehousing and shipping area for finished product.

The planned introduction for separate lines of meat snacks led to the installation of new equipment in Ottumwa to accommodate anticipated production needs. A coextrusion filling process and advanced vacuum packaging machinery put into operation in the final quarter now produce the multi-variety items marketed through the Meat Products Group. A similar line of snack sticks offered through the Prepared Foods Group will begin production in Ottumwa during the first quarter of the current fiscal year.

The Austin plant was the site of new equipment installation for an increasingly popular line of fresh boneless pork products. The multi-item line utilizes packaging technology from Europe to ensure an airtight vacuum seal and attractive package. The retail-ready items, such as thick-cut, butterfly, pork loin and wafer-cut pork chops, pork tenderloins and center-cut pork roasts, are packaged in microwavable trays using a clear film overwrap.

In Austin, additional automated ham massaging equipment representing the newest technology available was installed to improve efficiencies in the curing of meat used in the production of sliced deli hams. Similar equipment is already operational in the Ottumwa and Fremont plants. Also in Austin, a bacon bits dicing operation was added to improve production capacities for **Hormel** bacon bits and to increase overall product uniformity.





Far left photo: Beloit, Wis., production employee William T. Tyler oversees the loading of SPAM® luncheon meat into crates that are then moved into horizontal retorts for the important cooking and sterilizing process.

Also in Beloit, Anthony R. "Tony" Kundert operates the labeling machine for the new lightweight plastic container now being used for many of the Company's 7½-oz. individual canned servings products.

Right photo: In Atlanta, Ga., Phyllis M. Lodkey operates the new shrink-wrap automatic palletizing line which provides improved packaging for a variety of grocery products items.

Replacing outmoded equipment, a new filling machine upgraded production of **Dinty Moore** beef stew and **Hormel** chili at the Atlanta (Ga.) grocery products/meat products plant. The new installation offers faster filling speeds and greater quality control. In addition, a shrink-wrap line with automatic palletizing equipment for 7½- and 15-oz. cans was added to improve the end-line packaging process.

Shrink-wrapping of **Short Orders** individual canned servings in the revolutionary new **Q-Pak** lightweight plastic container started at the Beloit (Wis.) grocery products plant in midyear. Both labor and shipping savings are realized as the traditional 12- and 24-pack corrugated cartons are abandoned. Instead, shrink-wrapping eliminates one-half of the carton, replacing it with transparent plastic film that provides excellent protection during shipment. Also during the year, the Beloit plant began production of 12-oz. **SPAM** luncheon meat, supplementing near-capacity production at Company facilities in Austin and Fremont.

Early in the year, the Company's second free-standing dry sausage plant, located in Knoxville, Iowa, installed a vacuum packaging system adaptable for use with any of the specialty hard salami products produced in this nine-year-old facility. Vacuum packaging locks in the full flavor and freshness of dry sausage products, preserving color, eliminating product shrinkage and providing longer shelf life. Nearly all Company dry sausage products are packaged using this modern technique. A new drying unit added in Knoxville ensures better control of air distribution and speeds up the actual drying process to help produce greater efficiencies and economies in operation.

New Technology

In 1980, Hormel perfected a special process for precooking bacon and introduced to foodservice outlets this convenience-oriented product under the **Fast 'N Easy** brand. Two years later, **Broiled & Browned** sausage made its debut as both a retail and foodservice item and, like its bacon predecessor, required the user to simply warm the product in a microwave or conventional oven. The latest breakthrough was recorded this past year with the development of a method to precook a line of popular solid muscle meats, including pork chops, breast of chicken, catfish fillets and USDA Choice beef steaks, all of which also carry the **Broiled & Browned** name.

Due to the success of **New Traditions Broiled & Browned** pork sausage in 1985, three new sausage link and patty products were added this year to the growing line of fully cooked, microwavable meats. In addition, in an effort to improve manufacturing efficiencies of the sausage link products, a new loading machine installed in Oklahoma City at the close of the year automatically forms, fills and heat seals each carton in one continuous operation.

Also in Oklahoma City, several new products joined the Company's growing line of frozen foods. Included are **Hormel** breakfast bars and **Breakfast Pops** fritters, two easy-to-prepare breakfast foods for the foodservice industry, and **Gold'n Lite** ham & cheese bites.

The very successful development and marketing of **Frank 'N Stuff** franks with **Hormel** chili in 1985 prompted a line extension this past year that has been greeted with widespread consumer





acceptance. **Frank 'N Stuff** franks with cheese, the new entry that has yet to complete one year of national distribution, is already being manufactured at three Company locations — Fremont, Houston, Texas, and Seattle, Wash. As volume and distribution increase, the Operations Group is prepared to start production at additional plant facilities.

The quality of **Hormel** bacon was upgraded during the year following the development of new specifications for raw materials procurement and processing. More uniformity in the width and thickness of pork bellies and more precise cutting and trimming procedures have been established to ensure that the optimum amount of lean meat is being used in the production of premium sliced bacon products. The higher standards are required of all raw materials processed in Company plants as well as those supplied by outside purveyors. In Fremont, new **Black Label** bacon mesquite flavor was developed incorporating the popular mesquite flavor into the natural smoke process.

Refineries Division

Installation of new equipment and processes which produced improved efficiencies and higher quality finished products characterized the 1986 fiscal year for the Refineries Division.

As renovation of the inedible rendering area in the Fremont plant neared completion, a continuous strataflow rendering system was added, replacing worn batch melters installed over 30 years ago. The system, similar to one utilized in Ottumwa, combines cooking, pressing and

grinding operations into one continuous process. The result is a premium quality meat and bone meal which can be added directly to livestock feeds and pet foods as an important protein and mineral source.

A state-of-the-art blood drying operation is also new to the Fremont plant. The technologically advanced equipment uses low heat to dry blood, saving time and costly energy, while producing a better quality product. The ground blood is an excellent source of lysine which is used in Hormel feed products and by other domestic livestock feed manufacturers.

A different process developed in Austin successfully recaptures the residue byproduct of soup stock production. The residue which remains after soup stock extraction is a valuable source of calcium and phosphorus. A screening process was implemented to reclaim some of that residue which is added to meat and bone meal. This increases its mineral content and makes meat and bone meal a more desirable feed ingredient since the quantity of costly minerals normally added during feed formulation is reduced.

Efforts continue on improving the quality of mechanically separated meat produced in Ottumwa which must satisfy stringent United States Department of Agriculture (USDA) specifications before approval of sale is given within the United States. A valued ingredient in many types of sausages, authorization for export sales has been obtained. Once domestic usage begins, the market for this important protein-rich product will increase sharply.

The increased demand for precooked Hormel bacon products has resulted in larger quantities of available rendered bacon fat. Approximately 10 percent of the fat was marketed for use in specific cooking processes where a distinctive bacon flavor and aroma were desired. While new markets and uses are being explored, much of the rendered bacon fat is further processed as an ingredient or formula item for shortening.

At the close of the fiscal year, a new retail shortening was introduced which utilizes a packaging concept unique to this product. **Hormel** all purpose shortening is packed in an attractive one-pound carton which contains four individually wrapped, quarter-pound sticks. This quality shortening, an animal/vegetable blend, will appeal to consumers who appreciate the freshness and convenience of shortening sticks.

Left photo: Blaine P. Goocher, foreman, skinless pack, sausage pack and palletizers in Fremont, Neb., provides an end-line inspection of the Frank 'N Stuff® franks with cheese package, a new item now produced in three Company locations.





Hog Supplies

Although hog supplies in the first half of the fiscal year were four percent lower than 1985 inventories and exerted slight pressure on pork processors, an unexpected 10 percent drop in live hog numbers in the third and fourth quarters sent hog prices to unprecedented highs.

The record decrease in hog numbers, unforeseen by government or industry analysts, resulted in dramatic increases in the price of raw materials. Costs rose from \$41 to \$63 per hundredweight in the third quarter — 20 percent higher than 1985 price levels.

As the fiscal year ended, live hog slaughter was six percent lower than the previous year and only slightly above slaughter numbers during the previous two quarters. Pork supplies in cold storage were nearly 40 percent below 1985 levels as processors depleted their inventories of lower-priced pork supplies in an effort to stabilize processing costs.

Contrary to historical changes in the pork industry, the higher live hog prices and record low corn prices received by producers in 1986 are not expected to lead to immediate expansion of breeding herds.

Recovering from three years of poor profitability in pork production, the majority of the nation's hog producers are expected to maintain herds at 1986 levels, using the higher prices received from market hogs to reduce debts and make necessary repair to their facilities and equipment.

If this prediction is correct, high raw material costs will likely persist into the first and possibly second quarters of the new fiscal year. Some relief may be realized, however, as financially sound pork producers and former dairy farmers, who liquidated their herds under the government's dairy herd buyout program, respond to several months of excellent hog prices and abundant supplies of low-priced grain.

Feed Division

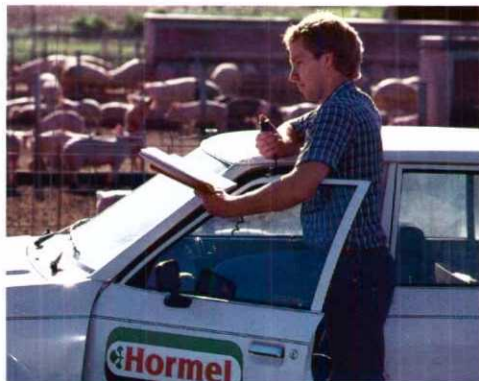
Although government programs and a difficult farm economy reduced the number of hogs, beef cattle and dairy cattle on Midwestern farms in 1986, the Hormel Feed Division continued to add new dealers to its expanding sales network. New products and the knowledgeable support of Hormel feed dealers also helped fuel this progress.

The improved performance that results when energy is added to livestock feeds has been well documented in recent years. As more producers request high-energy diets for their animals, feed dealers search for ways to answer that demand easily and economically. Hormel responded by assisting feed dealers in the installation of liquid energy dispensing systems that provide this high-energy ingredient to feed customers. It is a flexible system that allows the dealer to add energy to livestock rations or supplements in any amount desired.

This unique program is believed to be the most economical way to provide custom-mixed, high-energy diets. It has tremendous potential for helping Hormel feed dealers improve their sales and increase customer satisfaction.

Propass 32 percent all-natural beef supplement feed was introduced early in the year in response to producers who believe better performance can be realized by feeding only natural proteins. This is the first all-natural supplement developed by Hormel for use by nearly full-grown beef cattle. It is a high rumen bypass protein specially formulated to help producers raise healthier beef cattle.

Hormel haylage/silage preservative, introduced during the third quarter, can be added to haylage or silage after cutting to preserve the freshness and quality of each feedstuff. Also produced in 1986, new **Hormel** chunk-style, high-protein dog food is a nutrient-rich pet food which meets the needs of active dogs.



Top photo: Hormel® all purpose shortening offers outstanding frying and cooking results and promotes more flavor and richer breads and pastries as shown below.

Far right photo: In an ongoing effort to secure high-quality raw materials for processing, Randall L. Zellmer and other Company territory hog buyers keep in daily contact with area producers.



Meat Products Group

The past 10 years have severely tested a company's ability to successfully adapt to change. A new definition of family, precipitated by the growing number of one- and two-person households, increasing numbers of minority consumers, an aging population, more women in the workplace and a significant rise in the demand for light meals and snacks consumed "on the run," represent only a few of the many social trends now confronting consumer products companies. Add the accelerated interest in nutrition and weight control, plus the value and convenience consumers are seeking in their food products, and a clear picture emerges of the many challenges and opportunities facing the Meat Products Group. Benefiting from the momentum of recent years, meat products sales and marketing people have kept the Company in the forefront in discovering ways to maintain and enhance its preeminence as a food marketer.

Operating in a retail grocery industry where competition for expanded shelf space is intense and price and service pressures commonplace, the Meat Products Group made good progress in implementing its long-term strategies for growth and refining its product portfolio toward meeting special customer needs. Branded consumer products continue to demonstrate outstanding growth as does the rapidly expanding and diversified line of deli items, supported largely by the exciting new **Hormelcatessen** deli program.

The Foodservice Division succeeded in establishing many new accounts among national fast-food, family restaurant chains and other volume-feeding institutions. The addition of new sales personnel to service these accounts strengthened the Company's total foodservice operations and contributed to the fine performance reported by this Division in 1986.

Precooked Meats

An emphasis on offering consumers the types of products which best cater to new lifestyles and market preferences was most evident throughout fiscal 1986. Perhaps the clearest evidence of this far-reaching and heightened effort was the commitment placed behind the introduction of an expanded line of precooked meats.



Led by the successful consumer acceptance for **New Traditions Broiled & Browned** skinless pork sausage links in 1985, three additional breakfast meats made their retail and foodservice market debut by year-end. **New Traditions Broiled & Browned** pork sausage patties, **New Traditions Broiled & Browned** hot 'n spicy sausage links and **New Traditions Broiled & Browned** ham patties are line additions to a new product category created solely in response to a demand for fully cooked meats that can quickly and conveniently be prepared in microwave ovens.

Early in the year, an exciting cooking and packaging breakthrough was unveiled to the foodservice industry in the form of **Broiled & Browned** dinner meats. The four-item line of solid muscle, top-quality entrees — pork chops, USDA Choice beef steak, breast of chicken and fish fillets — is fully prepared and ready for immediate and quick reheating. This totally new product concept provides immense benefits to foodservice operators seeking speed in food preparation, reliable portion control and unmistakable quality and taste. Retail introduction of **Broiled & Browned** dinner meats began late in the fiscal year in selected market areas.





WEIGHT 100
PRICE 1.00
TOTAL PRICE 1.00
TDC
10.00-30.00
10.00-30.00

For Italians and anyone
joys eating like an Italian.
ever walked into a deli and
And Hippocrates has been

Hormelcatessen



Hormelcatessen

Hormelcatessen

Fast 'N Easy precooked bacon, the Company's first entry into precooked meats, is recognized as the national leader in its product category. In particular, sales of **Fast 'N Easy** round bacon increased significantly in response to the growing popularity of breakfast biscuits and bacon cheeseburgers. For foodservice operators, **Fast 'N Easy** round bacon is available in three sizes for just-right biscuit and burger coverage.



New Line Extensions

The phenomenal success of **Frank 'N Stuff** franks with **Hormel** chili, which completed its second full year of distribution in fiscal 1986, provided the impetus for introduction of a companion item — **Frank 'N Stuff** franks with cheese — which reached retail markets late in the second quarter.

Eighteen months of research and development, market testing and equipment modifications preceded market debut which was timed to coincide with the peak summer picnic and barbecue season. Over 95 percent of the U.S. adult population was reached with a series of entertaining network television commercials aired around popular day and nighttime programming.

An important addition to the prestigious **Black Label** bacon line appeared on supermarket shelves late in the second quarter. **Black Label** bacon mesquite flavor was developed in response to the growing popularity of this new flavor sensation. Introduced nationally, this new product has exceeded initial tonnage projections and continues to be especially well received in those areas of the country where the unique flavor of mesquite smoked meats is appreciated.

Meat Snack Sticks

Fiscal 1986 marked the Meat Products Group's entrance into this burgeoning market with the introduction of a four-item line of meat snacks. **Hormel** pepperoni sticks, **Hormel** salami sticks, **Hormel** beef sticks and **Hormel** ham sticks entered distribution late in the calendar year. All are authentic **Hormel** dry sausage flavors in a new, convenient snack form.



In conjunction with the product introduction, a new design was developed for the **Frank 'N Stuff** franks packages. The combination of bright lettering, clean graphics and modern red and yellow colors represents a bold departure from traditional wiener and frank packages. The results are a very positive image and strong brand identity for **Frank 'N Stuff** franks.



Sausage Additions

Increased interest in ethnic cuisine has led to a greater popularity and more creative uses for authentic, traditional sausages. New products having an Old World appeal but modern convenience were introduced in 1986.

Old Smokehouse smoked sausage, **Old Smokehouse** smoked sausage mesquite flavor, **Kielbasa Polish Sausage** and **Old Smokehouse** hot links were favorably received following their national debut at midyear.



Magnifico Italian sausage, introduced in 1985, has earned tremendous acceptance in both the retail and foodservice trade. The carefully seasoned sausage was joined this past year by **Magnifico** Italian hot sausage. This new version, with an extra pinch of zesty spices, was introduced into national markets during the final month of the fiscal year.

Pepperoni lovers were awarded two additional choices when shopping the self-service luncheon meats case in 1986. **Hormel** hot & spicy pepperoni and

Hormel giant slice pepperoni were introduced in 3½-oz. wallet packs.

Hormel hot & spicy pepperoni has an extra measure of tangy spices that combine to produce an especially sharp and zesty flavor. **Hormel** giant slice pepperoni not only offers a meatier appearance and a longer lasting taste, but the three-inch diameter size is a perfect fit for hoagies and sandwich use or as an ingredient in Italian antipastos and salads.

The Changing Marketplace

Two new varieties were added to the **Light & Lean** luncheon meat line in 1986. **Light & Lean** Canadian-style bacon chunks, with only 40 calories per one-ounce serving, and **Light & Lean** mesquite smoke flavored ham luncheon meat entered national distribution as the fiscal year began. These additions bring support to the growing number of calorie-controlled products introduced under the **Light & Lean** brand name.

Boneless Pork Success

As processed meat products become more and more convenient, fresh pork products, too, are rapidly changing form, providing ease of preparation and great taste while gaining consumer acceptance and loyalty.

A fitting example is the accelerated interest in the premium, vacuum packaged line of **Super Select** pork which offers retailers important versatility and convenience features with significant labor savings. Only those wholesale cuts to be merchandised and that sell best in the grocers' meat counter are purchased. This provides strict inventory and cost control.





Other lean-trimmed, fresh, boneless pork products marketed under the **Super Select** name include whole center-cut loins, shoulder butt roasts, tenderloins and ham and loin roasts. All items can be handled easily by retailers and lend themselves to excellent, uniform slicing for over-the-counter sales.

Complementing this wide variety of wholesale cuts is a six-item line of prepackaged pork retail-ready and tray-packed for immediate consumer purchase. Introduced into selected test markets one year ago, additional rollout was initiated in late 1986 with introduction to the Southeast region.

Other Consumer Promotions

Maximum attention was also devoted to the Meat Products Group's "best performers," those established brand-name products that have captured strong franchises among consumers. Two prominent examples are **Cure 81** ham and **Little Sizzlers** pork sausage.

Christmas 1985 marked the biggest marketing promotion ever scheduled for **Cure 81** ham. Commercials appeared during three popular network programs, *Dallas*, *Good Morning America* and the *CBS Morning News*, and an acclaimed miniseries, *Alice in Wonderland*, all of which reached nearly 117 million

households. Three top 10 television shows also featured **Cure 81** ham just prior to the Easter weekend.

In addition, a national cooperative Sunday free-standing insert with *Grey Poupon* Dijon-style mustard appeared during the Easter season in *Parade* magazine, *Sunday* magazine, the *Los Angeles Times* and the *San Francisco Chronicle*. The full-color insert featured **Cure 81** ham glazed with a mustard sauce.

In July, advertisements in *Family Circle* and *Good Housekeeping* portrayed **Cure 81** ham as a star ingredient in four favorite summertime recipes, including shish kabobs, fancy summer sandwiches and a ham barbecue. A retailer incentive program throughout the year also helped sustain promotional support for **Cure 81** ham.



Building upon its reputation for quality and great taste, **Little Sizzlers** pork sausage recorded an exceptionally strong performance in 1986. This is a significant accomplishment considering the great many food manufacturers producing breakfast sausages and the vast number of competing brands found in refrigerated meat cases.





Late in the year, a new packaging design brought renewed attention to **Wranglers** smoked franks. All three **Wranglers** smoked franks varieties — original, beef and cheese — now impact the refrigerated meat case with a stronger, bolder look. The new package emphasizes the smoky goodness and outdoor flavor attributes of **Wranglers** smoked franks.



Membership Stores

With the increase in membership warehouse-type stores and the corresponding acceptance of this concept by America's homemakers, several Hormel retail and foodservice products were repackaged to fit this new food shopping phenomenon. **Rosa Grande** lasagna with meat sauce and **Rosa Grande** vegetable lasagna, originally available only to foodservice operators, joined several consumer branded items, **Frank 'N Stuff** franks, **Little Sizzlers** pork sausage, **Black Label** bacon, **Hormel** 8 big franks and **Wranglers** smoked franks, as products specifically packaged in larger sizes and in multi-pack quantities for warehouse store distribution and sale.

Deli Division

With new direction and a more efficient organizational structure, the newly aligned Deli Division made impressive gains in fiscal 1986 toward reaching its goal of becoming the preferred supplier to the booming \$5.8 billion deli industry.

The primary thrust was focused on the development and introduction of the new **Hormelicatessen** deli program, an extensive marketing concept that enhanced the Company's image and reputation as a full-line supplier of deli foods. The **Hormelicatessen** deli program, offering promotional allowances, sales force coordination, timely distribution and consumer merchandising strategies, has been an unqualified success, far exceeding expectations.

At the start of the year, a new 95 percent fat-free cooked slicing ham made its deli debut. Offering virtually a 100 percent slicing yield, the lean and flavorful ham is sold principally for sandwiches and party trays. In the second quarter, an entirely new line of high-quality boneless turkey breast products — **Hormel** skin-on turkey breast, **Hormel** skinless turkey breast, **Hormel** hickory smoked turkey breast and **Hormel** mesquite smoked turkey breast — was introduced. Also in the second quarter, three USDA Choice beef products were unveiled. **Hormel** beef roast, **Hormel** corned beef and **Hormel** pastrami



are all 94 percent fat free. All of these new products take advantage of state-of-the-art packaging which allows them to be sold refrigerated, rather than frozen, for the very best flavor and texture.

Other successful new additions include a new deli bologna and beef bologna and **Hormel** pickle 'n pimento loaf. **Hormel** smoked honey maple cooked ham, a lean, full-muscle ham with a pleasing honey and maple flavor, was introduced late in the fiscal year.

The Deli Division completed its seventh year of producing special food gift packages for retail sale during the holiday season. This multi-million dollar food gift business continues to gain new sales volume. A one-pound vacuum packed chub of **Old Smokehouse** beef sausage was again popular for holiday gift giving as was the **Prima Festa** Italian gift box, a tasteful assortment of **Rosa Grande** pepperoni, **Mini Di Lusso** genoa and **Hormel** Piccolo salami.

Foodservice Division

The Foodservice Division continued to experience significant growth during the fiscal year. Strong emphasis was placed on expanding sales and distribution with major national customers and distributors such as airlines, convenience stores, fast-food chains and contract feeders. New precooked products introduced in 1985-86 provided the consistent quality

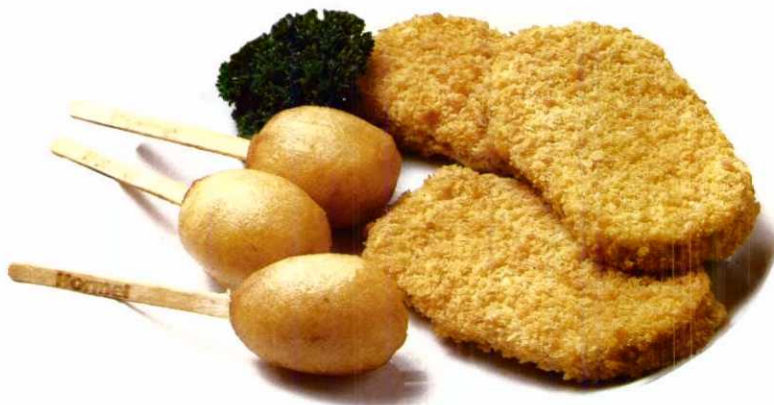


and preparation ease required by these types of foodservice customers. Bacon, hams and specialty cooked meats also contributed to the year's outstanding sales record.



As Americans shift rapidly toward a more active lifestyle and seek more convenience and nutrition, they are turning toward traditional foods to fill their needs but in entirely new and different forms. The continued emphasis on breakfast is an excellent example of this shift. An increasing number of fast-food outlets now offer quick breakfasts which not only appeal to growing numbers of consumers but provide this important foodservice sector with new sales volume opportunities.

The Foodservice Division reacted promptly to position itself as a supplier of quick, nourishing breakfasts with the introduction of two great-tasting products. **Hormel** breakfast bars are traditional breakfast foods — ham, eggs and cheese or sausage, eggs and cheese — in a fun, convenient form.



Another innovative breakfast-in-a-hurry idea new to foodservice markets is **Breakfast Pops** fritters — sausage wrapped in golden brown biscuit batter and served on a stick. Other varieties include sausage, egg and cheese; ham, egg and cheese, and a sausage with no stick. Like its companion item, **Breakfast Pops** fritters are high-protein foods that are tasty, nutritious and convenient.

Following in the footsteps of the popular **Broiled & Browned** pork sausage is a new addition — **Broiled & Browned** pork sausage nuggets. These one-half ounce bite-sized sausages heat in seconds and are the perfect answer to airline breakfasts and school lunch programs.

Direct Mail Catalogues

With the completion of three years in direct mail marketing, the **Austin Street Market** catalogue program met projected performance goals in 1986 in terms of customer response and dollar sales. In so doing, it earned the respect of many established members in the \$16 billion mail order industry.

Two additional mailings were made in fiscal 1986 with the combined three catalogues reaching consumers at important direct mail purchase periods in the year — the Easter holiday season, summer picnic and barbecue time and the Christmas holiday gift giving season. As the program gained in acceptance, expansion into new specialty areas was achieved and further emphasis placed on successful product groupings. Some of the more popular premium food and nonfood items in the catalogue were salmon and other quality seafood products, smoked hams, steaks, fruits and confections. New items will be added in future catalogue mailings.

Additional profit opportunities were developed following the establishment of cooperative agreements with a major airline and AT&T as part of their *Opportunity Calling* premium program. The AT&T agreement increased the potential customer base by 21 million. In addition, corporate gift giving, gift club and fund-raising programs were initiated to help introduce new customers to the **Austin Street Market** catalogue.

Prepared Foods Group

The Prepared Foods Group, enjoying an era of sustained high growth, recorded another outstanding year in fiscal 1986. In particular, the Grocery Products Division demonstrated its marketing strength and flexibility by maintaining the previous year's record tonnage volume and sales dollars. This remarkable accomplishment was reached despite unexpected and dramatically high raw material costs that placed severe pressures on margins, particularly during the third quarter.

Marketing expenditures rose substantially to reinforce the upward trend established two years ago. The unprecedented spending for consumer cents-off coupons, sales promotions, market research and trade and consumer advertising underscored the Division's heightened emphasis on new product introductions and the investments and focus given to sustaining growth and market share for mature product lines.

For the Industrial Products Division, also a major arm of the Prepared Foods Group, its fiscal 1986 performance was characterized by unprecedented growth, technological advances and the development of innovative and useful new products.

An aggressive gelatin export program initiated during the year was directed largely at European markets as the U.S. dollar weakened against foreign currency. In domestic operations, several new products, aimed at the booming skin and hair care industry, joined the already well regarded line of cosmetic-grade proteins marketed by the Industrial Products Division. With both quality and volume at peak levels, Hormel retained its ranking as one of the top three manufacturers in the world of cosmetic-grade collagen.

Chili Line Strengthened

Hormel chili completed another year of building upon its leadership role by outpacing the competition and the industry as a whole. Sales climbed substantially in a category that remained stable throughout the year, a significant accomplishment considering the highly competitive environment of the chili category where more than 285 brands and sizes compete for market space and consumer favor.

This market growth was fueled by two recent line extensions — **Hormel** chunky chili and **Hormel** chili with beans (less salt) — that continue to perform well. **Hormel** chunky chili, after only one year in national distribution, achieved a substantial volume gain. The new, rich chili with meaty beef chunks brought new users and new life to the category while building strength and awareness of the brand. **Hormel** chili with beans (less salt) proved popular with consumers in its year-long test in selected markets and was rewarded with a move into national distribution at the beginning of the 1986 fiscal year. This specialty product has developed a loyal following of health conscious consumers who strive to reduce their sodium intake without sacrificing great taste.

Newly created radio and television commercials offered humorous comparisons between **Hormel** chili and home-cooked specialties. Outdoor billboard posters reinforced sales efforts in the major chili consumption markets of California and Texas and a tie-in with Nabisco crackers, entitled "Premium Partners," reached 47 million consumers via a valuable cents-off coupon inserted nationally in Sunday newspaper supplements. This merchandising effort was supported by **Hormel** chili's first-ever use of 10-second spot commercials on popular network and syndicated television game shows.





New Look for an Old Favorite

Successfully combining time-honored tradition with a fresh look at consumer lifestyles, **SPAM** luncheon meat completed the 1986 fiscal year with a record 75 percent market share. This means three out of every four cans of canned luncheon meat sold through retail food outlets are **SPAM** luncheon meat — a market dominance that has few equals in any food category.

A major line extension of this world-renowned product, which will observe its 50th anniversary in 1987, was the national introduction early this fiscal year of Less Salt/Sodium **SPAM** luncheon meat. Containing 25 percent less salt and sodium, this new addition appeals to consumers who want a pleasing but less salty-flavored product. New users include consumers who had never tried original **SPAM** luncheon meat or its companions to the line — **SPAM** smoke flavored luncheon meat or **SPAM** luncheon meat with cheese chunks.

"Another American Favorite has Changed its Formula" was the theme network radio commercials portrayed in introducing Less Salt/Sodium **SPAM** luncheon meat. Other fast-paced 30-second commercials identified **SPAM** luncheon meat as the "fifth food group." Complementing this aggressive radio advertising program were three coupon promotions which reached 130 million homes in February, June and September. Additional Spanish-speaking radio spots targeted the Hispanic population of the South and Southwest and the major metropolitan markets of New York, Miami and Chicago.

A Golden Anniversary Year

After one-half a century on America's dinner tables, **Dinty Moore** beef stew continues to retain its prominence as a strong and viable product line. Nationally, **Dinty Moore** beef stew accounts for nearly

six pounds out of every 10 pounds sold in the 128-million pound canned meat stew category. **Dinty Moore** beef stew has developed into one of the Grocery Products Division's strongest brands.

In 1986, **Dinty Moore** beef stew relied largely on print and radio advertising to carry its message as a hearty "**Real Meat and Potatoes Meal**" that has adapted to changes in lifestyle and demographics in the marketplace. A tie-in with *Martha White* flour resulted in the distribution of a full-page, four-color, free-standing insert in February. The team of **Dinty Moore** beef stew and *Martha White* corn meal mix, supported by coupons and a recipe featuring both products, appeared in 50 major newspapers and entered over seven million homes in the southeast and east central states.

A new series of magazine advertisements, introduced at fiscal year-end, reached 60 million readers with the assertive message, "**Make it a Dinty Moore Day.**" The advertisements and cents-off coupons reminded consumers that America's favorite beef stew can brighten the most disappointing moments in any day.

The highly successful *Forestland Pals* promotion, now entering its third year, continues to win the hearts of children while forming for them a strong attachment and acceptance of **Dinty Moore** beef stew.



Leadership Position is Strengthened

The 52-million pound canned beef hash category enjoyed a resurgence in 1986 after several years of stable sales performance. Much of that growth can be attributed to strong media and marketing support given to **Mary Kitchen** roast beef hash and **Mary Kitchen** corned beef hash.

A new and unique radio series persuaded consumers to "Make Hash While the Sun Shines." Adding important support throughout the year were coupon redemption offers appearing as free-standing inserts in major Sunday newspapers.



A Strong Performance

An impressive year-long showing by **Not-So-Sloppy-Joe** sloppy Joe sauce was culminated with the successful national rollout of this exciting new product. Over 70 percent distribution was achieved in each of the regions which introduced this product as the year progressed. This excellent performance was attained despite competition from a national brand which has been a major factor in this large meat sauce category.

The all-natural **Not-So-Sloppy-Joe** sloppy Joe sauce has several key points of difference. The brand name is unlike others on the market, unique and powerful with strong identification. The sauce is richer and thicker than other leading brands and it offers a tantalizing hint of barbecue flavor. It is the only product of its type packed in a clear glass jar, which communicates high quality and freshness, and has a convenient, tamper-evident, reusable lid enabling consumers to store unused portions in the refrigerator for additional meals.

New Product / Winning Commercial

The Grocery Products Division expanded its selection of sauces with the launching of **Old Smokehouse** steak sauce plus in regional markets. Packed in five- and 10-oz. glass bottles, this distinctive item joins a line of **Old Smokehouse** Bar-B-Q sauces which was introduced nationally in 1985.

The special spicy/sweet flavor brings out the best taste when used with steak, poultry, pork, hamburgers and fish. This

versatility in usage is viewed as a significant marketing advantage that will help win consumer approval and build important volume growth.

Advertising and promotion have given **Old Smokehouse** steak sauce plus a unique and high-quality personality. The humorous television commercial which introduced this item to the Southwest, East Central and West Central regions, received a coveted Gold Lion award at the 33rd International Advertising Film Festival for its artistic and creative production. Proving that **Old Smokehouse** steak sauce plus "Makes Anything Taste Better," actors in the award-winning commercial found this to be true with a '53 Packard as well. Print advertisements echoed the theme by picturing **Old Smokehouse** steak sauce plus as a taste enhancer for other highly unusual items.



While the large and highly competitive barbecue sauce category is growing at a rapid rate, even greater expansion is occurring in a fragmented market niche involving the more upscale, super-premium barbecue sauces. The Grocery Products Division recognized this growing consumer trend and responded with the introduction of

Old Smokehouse tangy Bar-B-Q sauce. Three-ounce trial sizes of regular and mesquite flavor **Old Smokehouse** Bar-B-Q sauce were also developed to help increase brand awareness of the entire line and encourage first-time usage.

New magazine advertisements used during the year focused on the thick, rich goodness of **Old Smokehouse** Bar-B-Q sauce with the phrase, "All the Good Things Come to Those Who Wait."



New Line Extensions

Building on its 60-year-old reputation for producing fine canned hams, three premium additions made their debut during fiscal 1986.

The **Supreme Cut** ham, positioned as the premier item in the line, is a carefully selected portion cut taken from the center of the ham. It is the tenderloin of the ham family, a superior product that is lean, tender and juicy with excellent texture and a pleasing, mild flavor. In addition to the regular **Supreme Cut** ham, a second variety offers consumers a rich, distinctive flame-browned glaze using the ever popular sugar, clove and mustard combination.

A third introduction, **Light & Lean** ham, follows in the fine tradition of other **Light & Lean** products in that it responds directly to the huge and still-growing fitness-oriented segment of today's population. This product, also offering less fat and fewer calories, differs from its counterpart in the Meat Products Group in that it is marketed in 1½- and 3-lb. D-shaped cans rather than a clear vacuum packaged film. Surprisingly low in calories, a two-ounce serving of **Light & Lean** ham has only 60 calories compared to 128 for beef, 99 for fish and 94 for chicken.

The three new products were introduced on the West Coast to coincide with the prime Easter buying season. Magazine advertisements for **Supreme Cut** ham reached 4.5 million readers. Appearing twice in popular magazines such as *Sunset*, *Better Homes & Gardens* and *Woman's Day*, the advertisements proclaimed, "The Only Thing Left to Trim From This Ham was the Price." A 50-cent coupon was added to encourage consumer purchase. National distribution of **Supreme Cut** ham and **Light & Lean** ham was completed in the fourth quarter in advance of the peak Christmas holiday season. More extensive national promotions are planned for the start of the 1987 fiscal year.

Processing Improvements

Improved processing facilities and a commitment to freshness boosted sales of the newest additions to the Hormel line of chunk products — **Hormel** skinless and boneless chunk pink salmon and **Hormel** skinless and boneless chunk pink salmon smoke flavored.

During the 1986 salmon run, facilities in Cordova, Alaska, began processing **Hormel** skinless and boneless chunk salmon products. By reducing production costs and assuring peak-of-freshness flavor, Hormel offers consumers the highest quality canned salmon in the marketplace today.

In addition, the labels and can lids of both products now carry a "Made in Alaska" logo with the approval of the Alaska Department of Commerce and Economic Development. The products are also canned under kosher conditions. These improvements are expected to contribute to a substantial increase in salmon sales in 1987.

Tonnage for the eight-item line, which includes a variety of ham, poultry and fish products, outpaced the category in 1986. **Hormel** chunk ham, now in its 10th year of national distribution, recorded a significant sales increase.

This impressive gain can be attributed to increased advertising and sales promotions. Coupons on can tops rewarded consumers at point-of-purchase in an immediate and personal way. For the fifth consecutive year, sponsorship was provided to the prestigious *Southern Living* magazine cooking school, held twice annually in major southeast markets, while in Chicago, Ill., the popular "Luncheon is Served" program, aiding more than 450 nonprofit agencies and organizations, also benefited from sponsorship and promotion involving **Hormel** chunk products.

New one-half page magazine advertisements and spot radio commercials praised **Hormel** chunk products as displaying "Quality You Can See." Consumers were able to respond to this year-long campaign by sending for recipe booklets that illustrated the versatility of chunk products when used as an ingredient with salads, sandwiches and casseroles.







Entering New Markets

At the start of the second quarter, three Hormel pickled sausage varieties entered seven test markets. Hormel smoked sausage, Hormel smoked hot sausage and Hormel smoked beer sausage are made with selected cuts of beef, pork and turkey and packed using a tangy vinegar pickle flavor, a perfect combination for devotees of snacks and hors d'oeuvres.

Pickled products are a viable and growing part of the Grocery Products Division's business. Hormel pickled pigs feet, Hormel pork hocks and Hormel pork tidbits are the stalwarts of the line that have spearheaded the Company's preeminence in the pickled products category.

Single Serving Lines

The increasing number of one- and two-person households aided Short Orders individual canned servings as sales and tonnage figures rose above 1985 levels. More than one-half of the 24 entrees are now packaged in Q-Pak plastic containers that carry important nutritional information on the label.

The convenience store trade generated consistently high volume growth. Three rotating magazine advertisements placed in two major trade publications enhanced the overall image and awareness of the Hormel, Dinty Moore and Mary Kitchen brands and the opportunities provided for important over-the-counter sales. Tremendous growth potential is perceived for this diversified line of hot food entrees as distribution into retail and convenience store markets is intensified.

Retail Frozen Foods

Demonstrating again its strong commitment to retail frozen foods, the Grocery Products Division moved forward with the introduction of three new Gold'n Lite finger foods — Gold'n Lite chicken bites, Gold'n Lite whole wheat chicken bites and Gold'n Lite ham & cheese bites. Introduced initially in the East Central and West Central regions, national rollout of the three products is planned for early in fiscal 1987. The trio of new items raises to 11 the number of frozen breaded hors d'oeuvres and finger foods now marketed under the Gold'n Lite label.



Flavored Bits Improve Market Share

The complete line of Hormel flavored bits ended the fiscal year ahead of the previous year's performance and attained a 25 percent market share — the highest ever recorded. This growth was accomplished despite a one percent decline in sales volume for the total flavored bits and seasonings category.

Hormel bacon bits, the best-selling brand in the real bacon bits category, completed the year with a one percent sales increase. The volume growth was fueled by the introduction of three new bits products — Hormel pepperoni bits, Hormel ham bits and Hormel Cheddar cheese-flavored bits — that achieved exceptional first-year sales results in national distribution.

The Hormel flavored bits line was featured in three coupon promotions throughout the year, including a tie-in effort with Campbell's dry soup and recipe mix and Tetley tea. Thirty-six magazine insertions, including one entitled "There's More Than One Way to Top a Head of Lettuce," introduced the new bits products to readers of fine food magazines like *Bon Appetit* and *Food & Wine* and specialty women's magazines such as *Weight Watchers*.



Farm Fresh catfish fillets and **Catfish Bobbers** catfish snacks achieved additional distribution during their first full year in the marketplace. Coupons and magazine inserts were used to strengthen brand awareness and increase consumer acceptance.

Industrial Products Division

By most every definition, the Industrial Products Division's performance in fiscal 1986 was outstanding. Established product lines showed exceptional strength and provided the foundation for growth in sales and improvement in market share. While this progress was being achieved, several new products introduced during the year gave promise of providing additional growth opportunities.

Working virtually around-the-clock, the Davenport (Iowa) gelatin/specialized proteins plant continued to place strong emphasis on cost improvements. The combination of greater yields, effective cost containment efforts and significant tonnage increases allowed this seven-year-old plant to meet its ambitious performance goals.

The Davenport plant produces sterile gelatin of the highest grade. Still, additional improvements made during the year increased the transmittancy, conductivity and clarity qualities of the product. Meanwhile, the decline of the U.S. dollar against foreign currency spurred efforts to develop a strong gelatin export program that would reach confectionery customers in Japan, West Germany, France and other European countries. Foreign as well as domestic customers toured the Davenport plant and were able to view firsthand the operating efficiencies built into this "world class" facility and the overriding commitment that exists to maintain both quality and customer service.

Several lines of business contributed to the rise in sales volume. The market opportunities in the United States for "gummi-bear" type confectioneries expanded beyond original expectations. The popularity of these chewable candies represents one of the fastest growing categories in the confectionery industry and is providing the Industrial Products Division with expanded sales avenues. The surprising demand for hard-shell gelatin capsules resulted in increased gelatin sales.

An equally positive factor was the continued strong growth of hard-shell capsules into international markets where the potential for outpacing domestic sales remains excellent.

Cosmetic Proteins

Another key development has been the success of **Peptein 2000** hydrolyzed animal protein. This "flagship" protein product has maintained its leadership in the cosmetic field as a virtually odorless, almost clear, highly functional ingredient for the rapidly expanding shampoo/conditioner industry.

The line of proteins and other ingredients for the cosmetic industry was broadened in 1986. Specifically, five new products were developed for the skin and hair care industry, including **Lipitein P**, a cellular oil extract used in hair care formulations, and **Peptein AH**, an extension of the **Peptein 2000** hydrolyzed animal protein line which offers greater moisture-holding capacity when used as an ingredient with hair-waving preparations. Hormel is believed to be one of the top three companies in the world, both in volume and quality, of cosmetic-type proteins for industrial use.

Soup Stock

As soup sales grew during the year, so did the Industrial Products Division's line of **Building Blocks** concentrated meat stocks. Major food companies involved in soups, sauces and gravy manufacturing have found the Company's line of naturally flavored liquid stocks to have a delicious meaty flavor and color. The beef, ham, pork and meat (beef/pork) flavors and the variations in "body" or strength of these concentrated meat stocks assure both U.S. and European customers of selecting from the most complete line available today.

Private Label Products

Cognizant of the heightened consumer interest in nutrition and health, the Industrial Products Division expanded its role as a national marketer of private label sugar-free products. Containing G.D. Searle's **NutraSweet** brand aspartame, a low-calorie sweetener, the new product introductions assured consumers of receiving fewer calories without having to sacrifice their individual preferences for flavors or taste.

Late in the year, formulations for sugar-free instant and cooked puddings, hot cocoa and soft drink mixes were developed and packages designed for major private label accounts. Many of these new products now appear on supermarket shelves under such well known brand names as **Red Owl**, **Hy-Vee**, **Food Club**, **Lucky** and **Giant Food**.



Officers and Directors

At calendar year-end, the Board of Directors of Geo. A. Hormel & Company consisted of 13 members. Seven were officers of the Company and six were nonemployee directors.

The property, affairs and business of the corporation are managed by or under the direction of the Hormel Board. Regular meetings are scheduled throughout the year. Special meetings are called as necessary. The Board held eight regular meetings during fiscal 1986.

In addition to these meetings, members serve on various Committees of the Board which concentrate on specific areas of responsibility. The principal functions of the Board's five standing committees are briefly described.

Personnel Committee

R. L. Knowlton,
chairperson
Clarence G. Adamy
Ray V. Rose

The Personnel Committee has three members, one an employee director and two nonemployee directors. This Committee has the authority to review and make recommendations to the Board of Directors and to the Chief Executive Officer on matters relating to employee compensation, retirement, medical and life insurance benefits and executive development planning.

Contributions Committee

Raymond J. Asp,
chairperson
James E. Hall
William R. Hunter
James A. Silbaugh

The Contributions Committee has four members, all of whom are employee directors. This Committee is involved in reviewing charitable contributions, many of which are made to activities and organizations in communities where the Company operates. It evaluates the needs of various organizations and recommends the extent to which corporate financial support should be made available to worthy educational, humanitarian services and civic project endeavors.

Audit Committee

Geraldine M. Joseph,
chairperson
Clarence G. Adamy
DeWalt H. Ankeny, Jr.
Sherwood O. Berg
W. Eugene Mayberry, M.D.

The Audit Committee, composed entirely of nonemployee directors, reviews activities and matters pertaining to the audit, including systems of internal control and accounting policies and procedures. It approves services provided by the independent auditors and supervises investigations into matters within the scope of its duties.

Pension Investment Committee

Don J. Hodapp,
chairperson
William R. Hunter
James A. Silbaugh

The Pension Investment Committee has three members, all of whom are employee directors. This Committee reviews the investment results and strategies of the investment manager. In addition, it recommends to the Board the appointment of investment advisers or managers.

Executive Committee

R. L. Knowlton,
chairperson
Raymond J. Asp
James E. Hall
Don J. Hodapp
William R. Hunter
Charles D. Nyberg
James A. Silbaugh

The Executive Committee has seven members, all of whom are employee directors. This Committee has most of the powers of the Board of Directors and can act when the Board is not in session.



Changes in the Officers and Directors

A number of significant changes involving senior management and the Company's Board of Directors occurred during the year. The key appointments made in fiscal 1986 ensure an orderly transition of authority and further strengthen the Company's management team.

Don J. Hodapp, vice president of strategic planning and development and former general manager of the Fremont (Neb.) plant, was advanced to group vice president of the Administrative Group. He was also named to the Executive Committee and elected a director on the Hormel Board.

Hodapp succeeded Robert F. Potach who ended nearly 39 years of faithful service with his May 31, 1986, retirement. During his tenure with the Company, Potach served, successively, as controller, vice president, senior vice president and group vice president. Coinciding with Potach's retirement from active employment was his resignation from the Hormel Board, a position he held for more than 15 years.

Charles D. Nyberg was given expanded responsibility during the past year following his promotion to senior vice president in fiscal 1985. Nyberg was elected to the Company's Board of Directors and appointed to the Executive Committee. He retains his duties as general counsel and corporate secretary.

Also early in the year, Richard W. Schlange was elected a vice president of the corporation. He continues in his capacity as Company controller, a position he has held since April, 1985.

Frank M. Brown, vice president of engineering, retired May 24, 1986, after 38 years of loyal and exemplary service. He was succeeded in this capacity by James N. Rieth who previously served the Company as vice president of manufacturing.

William O. McCormack, an assistant secretary, resigned August 15, 1986, to pursue other interests.

W. Eugene Mayberry, M.D., Rochester, Minn., was elected to the Hormel Board on October 27. Dr. Mayberry has served as chairman of the Board of Governors for the Mayo Clinic since 1976 and is also president and chief executive officer of the Mayo Foundation.





R. L. Knowlton and Raymond J. Asp.



William R. Hunter, James N. Rieth and Robert G. Wells.



James E. Hall and

OFFICERS AND DIRECTORS

R. L. Knowlton

Chairman of the Board
President and Chief Executive Officer
Director since September, 1974

Raymond J. Asp

Executive Vice President
International and Trade Relations
Director since August, 1969

James E. Hall

Group Vice President
Prepared Foods
Director since September, 1984

Don J. Hodapp

Group Vice President
Administration
Director since March, 1986

William R. Hunter

Group Vice President
Operations
Director since July, 1979

James A. Silbaugh

Group Vice President
Meat Products
Director since May, 1983

Stanley E. Kerber

Senior Vice President
Meat Products Group Marketing

Charles D. Nyberg

Senior Vice President
Law Department, Human Resources and
Public Relations
General Counsel and Corporate Secretary
Director since March, 1986

James DiNicola

Vice President
Meat Products Group Sales

David A. Larson

Vice President
Human Resources

Marvin F. Moes

Vice President
Deli Division

Robert F. Patterson

Vice President
Grocery Products Division

James N. Rieth

Vice President
Engineering

Richard W. Schlange

Vice President
Controller

Robert J. Thatcher

Vice President
Treasurer

Robert G. Wells

Vice President
Pork and Beef Divisions

Walter B. Stevens

Assistant Treasurer
Finance and Bank Relations



Charles D. Nyberg,
Thomas J. Leake.

Thomas J. Leake

Assistant Secretary

Clarence G. Adamy,

Alexandria, Va.
Food Industry Consultant
Former President
National Association of Food Chains
Director since January, 1977

DeWalt H. Ankeny, Jr.,

Minneapolis, Minn.
Chairman of the Board and
Chief Executive Officer
First Bank System, Inc.
Director since December, 1983



Robert F. Patterson.



Don J. Hodapp (standing) and Walter B. Stevens, Robert J. Thatcher and Richard W. Schlange.



Stanley E. Kerber, James DiNicola, Marvin F. Moes and James A. Silbaugh.



David A. Larson and



W. Eugene Mayberry, M.D.

Sherwood O. Berg,

Brookings, S.D.

Serves as chief-of-party of
Midwest universities and
Harvard group
managing Indonesian education
and training program

Director June, 1969-June, 1973

Reelected November, 1976

Geraldine M. Joseph,

Minneapolis, Minn.

Senior Fellow

International Programs

Hubert H. Humphrey

Institute of Public Affairs

Director August, 1974-July, 1978

Reelected April, 1981



Ray V. Rose, Clarence G. Adamy, DeWalt H. Ankeny and Geraldine M. Joseph.

W. Eugene Mayberry, M.D.,

Rochester, Minn.

Chairman of Board of Governors
of Mayo Clinic and president
and chief executive officer of
the Mayo Foundation.

Director since October, 1986

Ray V. Rose,

Colorado Springs, Colo.

Food Industry Consultant

Former Supermarket Chain

Chief Executive Officer

Director since October, 1981

Stockholder Information

Whether you are a new owner of Geo. A. Hormel & Company common stock or a stockholder of longstanding, questions oftentimes arise regarding important matters associated with your ownership role. The information which follows addresses many of the questions frequently asked by Company stockholders.

Corporate Headquarters

Geo. A. Hormel & Company
501 16th Avenue N.E.
P.O. Box 800
Austin, Minn. 55912
(507) 437-5611

About Your Stock

Geo. A. Hormel & Company common stock is listed on the American Stock Exchange. The stock is listed as "Horml" in the stock table listings which appear in daily newspapers. The abbreviated symbol is "HRL."

Auditors

Ernst & Whinney
1400 Pillsbury Center
Minneapolis, Minn. 55402

Transfer Agent

The First National Bank of Chicago
One First National Plaza
Chicago, Ill. 60670

Communications concerning change in registered ownership and lost or stolen certificates should be directed to the Transfer Agent above.

The Transfer Agent has primary responsibility for the efficient transfer of Geo. A. Hormel & Company common stock, including maintenance of stockholder records and the cancellation and issuance of stock certificates.

Registrar

Harris Trust and Savings Bank
111 West Monroe Street
Chicago, Ill. 60690

Stockholder Inquiries

Communications concerning dividends and change of address should be directed to Geo. A. Hormel & Company, %Corporate Secretary, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5298.

Additional Information

Media representatives and others seeking general information regarding Geo. A. Hormel & Company should contact the Director of Public Relations, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5334.

Security analysts, portfolio managers and other investors seeking financial information about the Company should contact the Office of the Treasurer, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5950.

Reports and Publications

This Annual Report is just one of the sources of information about the Company available to stockholders and the general public. Some of the other sources include:

Form 10-K to the Securities and Exchange Commission

Available in January, this Report provides further details of Geo. A. Hormel & Company's business. Stockholders of record and/or beneficial owners of the Company's stock may obtain, without charge, a copy of the most recent Form 10-K. A written request should be directed to Geo. A. Hormel & Company, %Director of Public Relations, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5334.

Form 10-Q to the Securities and Exchange Commission

The Form 10-Q quarterly reports filed with the Securities and Exchange Commission are available in March, June and September from the Office of the Treasurer, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5950.

Notice of Annual Meeting and Proxy Statement

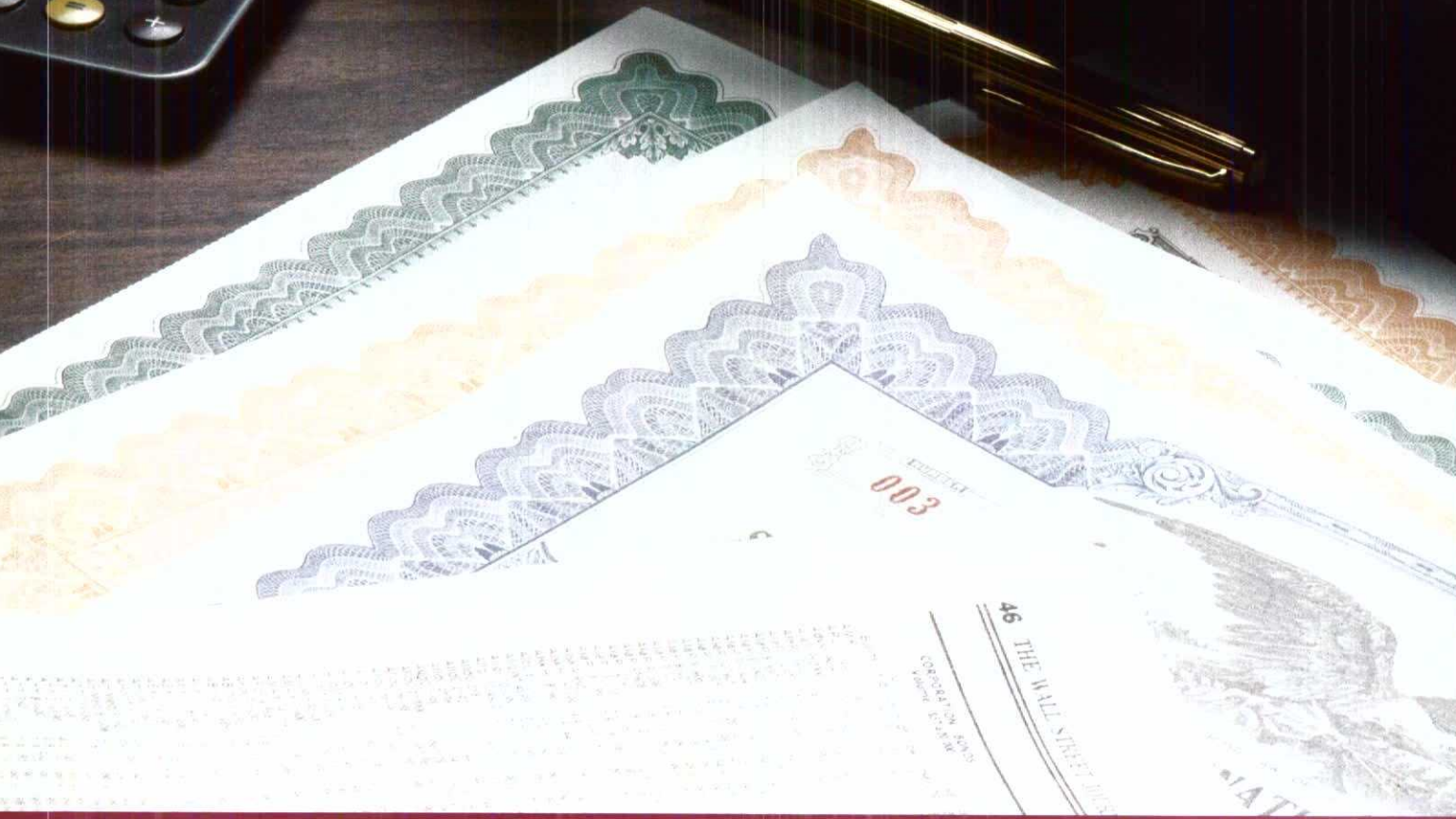
Mailed in January, this publication provides biographies of the nominees for the Board of Directors, details of the shares of Hormel common stock they own and a description of their principal affiliations with other companies or organizations. The proxy statement also describes items of business to be voted on at the Annual Meeting.

Accompanying the proxy statement is the proxy card which should be signed, dated and returned promptly to ensure that all shares are represented at the meeting and voted in accordance with instructions of their holders.



THE WALL STREET JOURNAL

What's News



COMMON STOCK DATA

The high and low bid price of Geo. A. Hormel & Company's stock during each quarter of 1986 and 1985, respectively, and the dividends per share are shown below. Quotations were obtained from *The Wall Street Journal*. The number of stockholders at October 25, 1986, approximated 6,100.

1986			1985	
<i>Fiscal Quarter</i>	<i>Cash Dividends Declared</i>	<i>Market Price Range</i>	<i>Cash Dividends Declared</i>	<i>Market Price Range</i>
First Quarter	\$.14	\$20 ³ / ₄ - 26 ¹ / ₂	\$.13 ¹ / ₂	\$14 ³ / ₈ - 16 ³ / ₁₆
Second Quarter	.14	22 ¹ / ₈ - 31	.13 ¹ / ₂	16 ¹ / ₄ - 17 ¹ / ₈
Third Quarter	.14	29 ⁷ / ₈ - 35	.13 ¹ / ₂	16 ³ / ₁₆ - 19 ³ / ₈
Fourth Quarter	.14	29 ³ / ₄ - 33 ³ / ₈	.13 ¹ / ₂	18 ¹ / ₂ - 22 ³ / ₈

Quarterly Reports

Mailed to each stockholder in February, May, August and November, these reports contain financial information and other current news about the Company.

Report on Annual Meeting of Stockholders

Mailed to each stockholder in February, shortly after the Annual Meeting, it summarizes the activities which transpired, providing a complete text of the chief executive officer's address and the results of voting on items of business.

Policy on Public Disclosure

Geo. A. Hormel & Company adheres to a corporate policy of disseminating all pertinent financial data and other material information on corporate activities on a timely basis and in accordance with applicable laws and regulations. An ongoing program, through which accurate, objective and timely disclosure of important information is released, continues to be the best way of discharging corporate responsibility for communications. In doing so, investor audiences, including present stockholders, can make informed judgments about the Company's current position, its future prospects and the quality of its management.

Duplicate Mailings

Sometimes stockholders receive duplicate mailings of the Company's Annual Report, quarterly reports or other publications despite efforts to prevent them. This happens primarily because stockholders may own shares held in different though similar names. For example, Jane R. Doe may appear on one share of stock, but J.R. Doe or J. Rose Doe on others.

The Company is required by law to mail to each name on the stockholder list unless the stockholder requests duplicate mailings be eliminated. If husband, wife

and children own stock in their own names, reports will be sent to each unless the stockholder helps to eliminate this duplication by requesting only one copy.

Such requests should be directed to Geo. A. Hormel & Company, %Corporate Secretary, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5298. Send labels or label information indicating which name you wish to keep on the list and which names should be deleted. This will not affect dividend mailings.

Dividend Calendar

"Stockholder of record" refers to a stockholder who is entitled to receive a dividend on the "payable date" if he or she is listed as a Geo. A. Hormel & Company stockholder on the "record date" (approximately 30 days before the payable date).

Dividends are mailed so as to reach stockholders of Geo. A. Hormel & Company on the fifteenth of February, May, August and November of each quarter in which a dividend is declared.

Geo. A. Hormel & Company's Board of Directors typically declares the payment of a cash dividend each quarter. Since becoming a public company in 1928, Hormel has never failed to make a quarterly dividend — a payout record that now extends to 58 consecutive years. Over the long term, the Company expects to increase dividends consonant with increased earnings.

Tax Reports on Dividend Income

Geo. A. Hormel & Company is required to report to the Internal Revenue Service the total amount of stockholder dividends paid each year. Form 1099, which contains the information supplied to the IRS for each stockholder account, will be mailed to stockholders at the end of the calendar year.

F INANCIAL SECTION

THE YEAR IN REVIEW

	1986	1985
Net Sales	\$ 1,960,237,000	\$ 1,502,235,000
Net Earnings	\$ 39,079,000	\$ 38,618,000
Per Share of Common Stock	\$ 2.03	\$ 2.01
Percent of Sales	1.99%	2.57%
Dividends to Stockholders	\$ 10,759,000	\$ 10,375,000
Per Share of Common Stock	\$.56	\$.54
Capital Additions	\$ 21,477,000	\$ 29,444,000
Depreciation	\$ 30,741,000	\$ 28,087,000
Working Capital	\$ 196,199,000	\$ 152,985,000
Stockholders' Investment	\$ 339,925,000	\$ 311,605,000

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S Elected FINANCIAL DATA

(Thousands of Dollars)

OPERATIONS	1986	1985	1984
Net Sales	\$1,960,237	\$1,502,235	\$1,454,52
Net Earnings	39,079	38,618	29,49
Percent of Sales	1.99%	2.57%	2.03%
Wage Costs	222,535	233,512	241,21
Total Taxes (excluding Payroll Tax)	38,297	40,500	30,39
Depreciation	30,741	28,087	27,05
<hr/>			
FINANCIAL POSITION			
Working Capital	\$ 196,199	\$ 152,985	\$ 106,33
Properties (net)	255,159	264,679	263,92
Total Assets	584,744	560,939	525,32
Long-Term Debt —			
Less Current Maturities	63,264	64,334	56,69
Stockholders' Investment	339,925	311,605	283,36
<hr/>			
PER SHARE OF COMMON STOCK			
Net Earnings	\$ 2.03	\$ 2.01	\$ 1.5
Dividends56	.54	.5
Stockholders' Investment	17.69	16.22	14.7

*53 Weeks

GEO. A. HORMEL & COMPANY

1983	1982	1981*	1980	1979	1978	1977
\$1,417,705	\$1,426,596	\$1,433,966	\$1,321,966	\$1,414,016	\$1,244,865	\$1,106,274
27,897	28,051	27,283	32,758	29,970	19,471	21,499
1.97%	1.97%	1.90%	2.48%	2.12%	1.56%	1.94%
250,724	269,964	270,522	254,303	233,878	201,633	192,590
28,483	22,805	18,796	28,077	27,635	17,997	22,857
26,410	17,587	13,887	13,452	12,102	11,551	11,312
\$ 95,403	\$ 69,527	\$ 59,440	\$ 69,843	\$ 84,646	\$ 77,523	\$ 68,479
270,103	276,684	228,813	160,825	119,213	103,992	99,921
512,559	488,859	425,065	355,853	323,149	279,495	262,801
82,164	88,264	65,834	28,495	28,749	28,993	28,226
263,861	245,570	226,741	208,296	183,608	160,747	147,808
\$ 1.45	\$ 1.46	\$ 1.42	\$ 1.70	\$ 1.56	\$ 1.01	\$ 1.12
.50	.48	.46	.42	.37	.34	.28
13.73	12.78	11.80	10.84	9.56	8.37	7.69

S TATEMENTS OF FINANCIAL POSITION

GEO. A. HORMEL & COMPANY

	October 25, 1986	October 26, 1985
	(Thousands of Dollars)	
ASSETS		
CURRENT ASSETS		
Cash	\$ 14,697	\$ 19,460
Short-term marketable securities— at cost which approximates market	69,297	49,279
Accounts receivable	117,746	107,767
Inventories	116,480	109,873
Prepaid expenses	2,503	2,089
TOTAL CURRENT ASSETS	320,723	288,468
INVESTMENTS AND OTHER ASSETS	8,862	7,792
PROPERTY, PLANT AND EQUIPMENT		
Land	3,995	3,768
Buildings	115,719	114,159
Equipment	332,085	315,174
Construction in progress	8,974	10,545
	460,773	443,646
Less allowance for depreciation	(205,614)	(178,967)
	255,159	264,679
	\$ 584,744	\$ 560,939

	October 25, 1986	October 26, 1985
	(Thousands of Dollars)	
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	\$ 47,096	\$ 60,350
Accrued expenses	24,812	21,104
Employee compensation	27,440	35,970
Taxes other than federal income taxes	9,018	9,975
Dividends payable	2,690	2,594
Federal income taxes	12,369	4,924
Current maturities of long-term debt	1,099	566
TOTAL CURRENT LIABILITIES	124,524	135,483
LONG-TERM DEBT — less current maturities	63,264	64,334
OTHER LONG-TERM LIABILITIES	2,409	1,419
DEFERRED INCOME TAXES	54,622	48,098
STOCKHOLDERS' INVESTMENT		
Common Stock, par value \$.4688 a share — authorized 24,000,000 shares, issued 19,213,032 shares	9,007	9,007
Additional paid-in capital	2,760	2,760
Earnings reinvested in business	328,158	299,838
	339,925	311,605
	<u>\$ 584,744</u>	<u>\$ 560,939</u>

See notes to financial statements.

S TATEMENTS OF EARNINGS AND EARNINGS REINVESTED IN BUSINESS

GEO. A. HORMEL & COMPANY

	October 25, 1986	Fiscal Year Ended October 26, 1985	October 27, 1984
		(Thousands of Dollars)	
Sales, less returns and allowances	\$ 1,960,237	\$ 1,502,235	\$ 1,454,527
Costs and expenses:			
Cost of products sold	1,614,709	1,185,078	1,186,685
Selling and delivery	230,730	203,558	174,833
Administrative and general	40,545	33,426	29,809
Other income — net	(4,491)	(2,959)	(1,151)
Interest	7,900	11,394	11,069
	<u>1,889,393</u>	<u>1,430,497</u>	<u>1,401,245</u>
EARNINGS BEFORE INCOME TAXES	70,844	71,738	53,282
Provision for income taxes	31,765	33,120	23,790
NET EARNINGS	39,079	38,618	29,492
Earnings reinvested in business — beginning of year	299,838	271,595	252,094
Cash dividends on Common Stock (Per share: 1986—\$.56; 1985—\$.54; 1984—\$.52)	(10,759)	(10,375)	(9,991)
EARNINGS REINVESTED IN BUSINESS — END OF YEAR	<u>\$ 328,158</u>	<u>\$ 299,838</u>	<u>\$ 271,595</u>
EARNINGS PER SHARE	<u>\$ 2.03</u>	<u>\$ 2.01</u>	<u>\$ 1.53</u>

See notes to financial statements.

S TATEMENTS OF CHANGES IN FINANCIAL POSITION

GEO. A. HORMEL & COMPANY

	October 25, 1986	Fiscal Year Ended October 26, 1985	October 27, 1984
		(Thousands of Dollars)	
Cash from operations:			
Net earnings	\$ 39,079	\$ 38,618	\$ 29,492
Items not requiring cash:			
Depreciation	30,741	28,087	27,056
Deferred taxes	6,524	9,869	8,108
TOTAL FUNDS FROM OPERATIONS	76,344	76,574	64,656
Working capital changes increasing (decreasing) cash:			
Accounts receivable	(9,979)	(23,014)	(5,376)
Inventories	(6,607)	5,245	(25,146)
Other current assets	(414)	269	2,394
Current liabilities, except for debt changes and dividends payable	(11,588)	14,142	(14,738)
TOTAL CASH FROM OPERATIONS	47,756	73,216	21,790
Financing activities:			
Increase (decrease) in long-term debt and other long-term liabilities	453	(16,733)	(204)
Dividends paid on Common Stock	(10,663)	(10,279)	(9,895)
	(10,210)	(27,012)	(10,099)
Investment in long-term assets:			
Purchases of property, plant and equipment	(21,477)	(29,444)	(21,529)
Carrying value of disposals of property, plant and equipment	256	607	647
Decrease (increase) in investments and other assets	(1,070)	1,200	1,648
	(22,291)	(27,637)	(19,234)
INCREASE (DECREASE) IN CASH AND SHORT-TERM MARKETABLE SECURITIES	\$ 15,255	\$ 18,567	\$ (7,543)

See notes to financial statements.

N

OTES TO FINANCIAL STATEMENTS

GEO. A. HORMEL & COMPANY

OCTOBER 25, 1986

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The financial statements include the accounts of Geo. A. Hormel & Company and all of its majority-owned subsidiaries after elimination of all significant intercompany accounts, transactions and profits. Investments in unconsolidated foreign companies are included in the financial statements at the Company's cost.

Segment Information: Hormel is engaged in a single business segment designated as "meat and food processing." As a federally inspected food processor, Hormel is engaged in the processing of livestock into meat and meat products, production of a variety of prepared foods, and the marketing of those products. Export sales account for less than 1% of sales. No customer accounts for more than 3% of sales.

Inventories: Inventories are valued at the lower of cost or market. Livestock and the materials portion of products are determined by the first-in, first-out method. Inventoriable expenses, packages and supplies are determined by the last-in, first-out method.

Property, Plant and Equipment: Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the related assets, primarily on a straight-line basis.

Income Taxes: Provision is made in the financial statements for deferred income taxes arising primarily from timing differences in accounting for depreciation for tax and financial reporting purposes.

Earnings Per Share: Earnings per share of Common Stock are based on the weighted average number of shares outstanding during the year.

Fiscal Year: The Company's fiscal year ends on the last Saturday in October.

NOTE B — INVENTORIES

Inventoriable expenses, packages and supplies amounting to approximately \$29,500,000 at October 25, 1986, \$34,100,000 at October 26, 1985, and \$32,700,000 at October 27, 1984, are stated at cost determined by the last-in, first-out method, and are \$15,500,000, \$15,300,000, and \$16,300,000 lower in the respective years than such inventories determined under the first-in, first-out method.

NOTE C — LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

Long-term debt consists of:

	October 25, 1986	October 26, 1985
	(Thousands of Dollars)	
Three-Year Notes	\$ 50,000	\$ 50,000
Capitalized leases related to Industrial Revenue Bonds	14,363	14,900
	64,363	64,900
Less current maturities	1,099	566
	<u>\$ 63,264</u>	<u>\$ 64,334</u>

On August 30, 1985, the Company issued \$50,000,000 of Three-Year Notes at an interest rate of 10.10%. The notes will mature on September 1, 1988. The note agreements contain certain provisions and restrictions relating to limitations on liens, sale and leaseback arrangements, and funded debt. The Company is in compliance with all these covenants at October 25, 1986.

At October 25, 1986, the Company had unused lines of credit of \$15,400,000 for short-term borrowing. The Company generally maintains average compensating balances for borrowings under each line of credit to a stated amount based upon bank ledger balances adjusted for uncollected funds, equal to 5% of the banks' commitments plus 5% of borrowings. A fixed fee is paid for the availability of each credit line above the stated amount. Based upon total bank commitments at October 25, 1986, the Company should maintain average compensating balances of approximately \$330,000, which stated in terms of the Company's book balances is approximately \$2,651,000. The difference is attributable to uncollected funds. During the year ended October 25, 1986, the Company maintained average collected balances of approximately \$743,000 (all of which relates to its average unused lines of credit). Compensating balances are not restricted as to withdrawal.

Maturities of long-term debt for the five fiscal years subsequent to October 25, 1986, are as follows: 1987 — \$1,099,000; 1988 — \$50,365,000; 1989 — \$519,000; 1990 — \$358,000; 1991 — \$380,000.

NOTE D — EMPLOYEE BENEFITS

The Company and its subsidiaries have several noncontributory defined benefit plans covering most employees. Benefits for plans covering hourly employees are provided based on stated amounts for each year of service while plan benefits covering salaried employees are based on final average compensation. The Company's funding policy is to make annual contributions of not less than the minimum required by applicable regulations.

In 1986, the Company elected early adoption of FASB Statement No. 87, "Employers' Accounting for Pensions." The effect of this adoption was to reduce 1986 pension cost by approximately \$5,700,000. Pension expense and related information presented below for 1985 and 1984 have not been retroactively restated.

A summary of the components of net periodic pension cost in 1986 and the net pension cost for 1985 and 1984 follows:

	1986	1985	1984
	(Thousands of Dollars)		
Service cost — benefits earned during the year	\$ 3,286		
Interest cost on projected benefit obligation	24,190		
Actual return on plan assets	(51,909)		
Net amortization and deferral	26,814		
Net pension costs	<u>\$ 2,381</u>	<u>\$ 8,736</u>	<u>\$ 13,040</u>

Assumptions used in accounting for the defined benefit plans in 1986 as of October 25 were:

Weighted average discount rates	7.5%
Rates of increase in compensation levels	5.0%
Expected long-term rate of return on assets	10.0%

NOTES TO FINANCIAL STATEMENTS

(Continued)

The following table sets forth the plans' funded status and amounts recognized in the statement of financial position at October 25, 1986:

	Plans Whose Assets Exceed Accrued Benefits	Plans Whose Accrued Benefits Exceed Assets
	(Thousands of Dollars)	
Actuarial present value of benefit obligations:		
Vested benefit obligation	\$ 103,745	\$ 208,974
Non-vested benefit obligation	6,891	3,609
Accrued benefits	110,636	212,583
Effects of estimated future pay increases	23,741	—
Projected benefit obligations	134,377	212,583
Plan assets at fair value	119,679	181,589
Projected benefit obligations in excess of plan assets	14,698	30,994
Unrecognized net gain (loss)	(17,427)	(19,411)
Remaining net asset (or obligation) at transition	3,531	(10,006)
Net pension liability in statement of financial position	\$ 802	\$ 1,577

At October 25, 1986, plan assets included Common Stock of the Company having a market value of \$24,272,000.

The actuarial present value of accumulated benefits at October 26, 1985 was \$240,721,000 based on an 8½% discount rate, including vested benefits of \$233,122,000 and the plan's net assets available for benefits were \$273,460,000.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits to retired employees. Persons who are working for the Company at the time of their retirement are eligible for health care and life insurance benefits providing they qualify for pension benefits. The cost of retiree health care and life insurance benefits is recognized as expense as claims are paid. For 1986, those costs totaled \$8,495,000.

NOTE E — INCOME TAXES

The components of the provision for income taxes are as follows:

	1986	1985	1984
	(Thousands of Dollars)		
Current:			
U.S. Federal	\$ 22,916	\$ 20,731	\$ 13,928
State	2,325	2,520	1,838
	25,241	23,251	15,766
Deferred:			
U.S. Federal	5,882	9,225	7,431
State	642	644	593
	6,524	9,869	8,024
	\$ 31,765	\$ 33,120	\$ 23,790

Included in the provision for deferred federal income taxes is the effect of timing differences for depreciation (1986 — \$8,104,000; 1985 — \$10,568,000; 1984 — \$8,525,000). Deferred taxes have been provided based on the 46% statutory rate in effect through December 31, 1986. It is anticipated that these timing differences will reverse in future years affecting the Company's tax return at the 34% statutory rate enacted by the Tax Reform Act of 1986. Investment tax credits recognized in 1986 are limited to those eligible under the Tax Act. The amount of tax credits in 1986 lost because of the Tax Act was approximately \$463,000.

Reconciliation of the statutory federal income tax rate to the Company's effective tax rate follows:

	1986	1985	1984
U.S. statutory rate	46.0%	46.0%	46.0%
State taxes on income, net of federal tax benefit	2.3	2.4	2.5
Investment tax credits	(2.3)	(3.1)	(2.8)
All other, net	(1.2)	.9	(1.1)
Effective tax rate	44.8%	46.2%	44.6%

NOTE F — RELATED PARTY TRANSACTIONS

In September, 1985, the Company entered into a two-year marketing agreement with FDL Foods, Inc., a meat processing company located in Dubuque, Iowa. Under the agreement, the Company's wholly owned subsidiary, FDL Marketing, Inc., purchases at cost (approximately \$575,000,000 in 1986), markets and distributes the entire production of FDL Foods. The combined pretax income of FDL Foods and FDL Marketing is divided between the subsidiary and FDL Foods. The agreement also gives the Company the option to purchase FDL Foods at any time during the two-year period.

NOTE G — LEASES

Rental expense and future lease commitments are not material.

NOTE H — CONSTRUCTION IN PROGRESS

The estimated costs to complete construction in progress at various locations at October 25, 1986 are approximately \$8,796,000.

NOTE I — EMPLOYEE STOCK OPTION PLAN

In 1986, the Company established the "1986 Key Employee Stock Option Plan." The Plan enables the Company, at its discretion, to grant options to certain key employees to purchase shares of its common stock at a price not less than the fair market value of the shares on the date of grant.

The Plan stipulates that no more than 5% of the Company's authorized shares of common stock may be delivered upon exercise of all options granted under the Plan and no more than 2% of such authorized shares shall be subject to options in any one year. In November, 1986, options were granted to purchase 280,000 shares at prices ranging from \$29 $\frac{7}{8}$ to \$30 per share. These options expire at various dates ranging from 1988 through 1991.

NOTE J — QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following tabulation reflects the unaudited quarterly results of operations for the years ended October 25, 1986 and October 26, 1985:

N

OTES TO FINANCIAL STATEMENTS

(Continued)

	Net Sales	Gross Profit	Net Earnings	Earnings Per Share
	(Thousands of Dollars)			
1986				
First Quarter	\$ 480,810	\$ 83,830	\$ 8,902	\$.46
Second Quarter	442,209	78,572	5,098	.27
Third Quarter	485,010	91,069	9,048	.47
Fourth Quarter	552,208	92,057	16,031	.83
	<u>\$ 1,960,237</u>	<u>\$ 345,528</u>	<u>\$ 39,079</u>	<u>\$ 2.03</u>
1985				
First Quarter	\$ 357,155	\$ 71,161	\$ 8,289	\$.43
Second Quarter	353,623	71,955	6,861	.36
Third Quarter	360,909	77,593	9,558	.50
Fourth Quarter	430,548	96,448	13,910	.72
	<u>\$ 1,502,235</u>	<u>\$ 317,157</u>	<u>\$ 38,618</u>	<u>\$ 2.01</u>

NOTE K — SUBSEQUENT EVENT

In December, 1986, the Company entered into an agreement to acquire all of the stock of Jennie-O Foods, Inc., a Willmar, Minn.-based company engaged in the growing of turkeys and the processing, selling and distribution of turkey products, for \$85,000,000 in cash. The acquisition will be accounted for as a purchase and is expected to be closed on December 29, 1986.

A

CCOUNTANTS' REPORT

To the Stockholders and Board of Directors
Geo. A. Hormel & Company
Austin, Minnesota

We have examined the statements of financial position of Geo. A. Hormel & Company as of October 25, 1986, and October 26, 1985, and the related statements of earnings and earnings reinvested in business and changes in financial position for each of the three years in the period ended October 25, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Geo. A. Hormel & Company at October 25, 1986, and October 26, 1985, and the results of its operations and changes in its financial position for each of the three years in the period ended October 25, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.

Minneapolis, Minnesota
November 18, 1986

Ernst & Whinney

M

ANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Results of Operations

Sales and gross earnings in the meatpacking industry are significantly influenced by the fluctuating cost of livestock and consumer demand for meat products. The following discussion analyzes material changes in the major items.

Fiscal Years 1986 and 1985

In addition to the meatpacking industry challenges of declining red meat consumption, industry overcapacity and significant increases in fresh pork and raw material prices, the Company experienced labor difficulties throughout much of fiscal 1986. Despite these difficult challenges and nonproductive distractions of management's attention due to the protracted strike at the Austin (Minn.) plant, the Company realized a record year in sales and net earnings. These results are due in part to success in increasing the sales volume of less volatile value-added, consumer branded packaged foods.

Sales increased by \$458,002,000, or 30.5 percent, over 1985 to a record \$1,960,237,000. Tonnage also increased significantly. Both sales and tonnage increases are a result of the inclusion for the first full year of FDL Marketing, Inc., a wholly owned Hormel subsidiary which is the exclusive marketer of the production of FDL Foods, Inc., a Du-buque, Iowa, meatpacker.

Extremely gratifying was the record setting fourth quarter sales of \$552,208,000, a 28.3 percent increase from 1985, reflecting primarily the inclusion of FDL Marketing, Inc., sales for a full quarter in 1986 and successful sales campaigns by the Prepared Foods and Meat Products Groups. We believe the success of these campaigns is evidence of increasing consumer acceptance of the Company's diversified value-added product lines. The fourth quarter results take on added significance in light of a strike which shut down operations at the two production facilities of FDL Foods, Inc., for the better part of the quarter, reducing the availability of fresh pork and with it significant sales volume.

Gross margin for the year increased by \$28,371,000 but declined as a percentage of sales. This reflects the lower gross margins on the commodity type product mix of FDL Marketing, Inc. The lower margins of FDL products were partially offset by the higher margins which are realized on Hormel value-added consumer products. Strike related expenses to move production, increase security and retrain the Austin plant workforce were incurred primarily in the first half of the year and reduced margins. Increased efficiency and utilization of Company manufacturing facilities helped offset strike related expenses and was a result of careful planning prior to and during the Austin plant strike.

The effective tax rate in 1986 declined to 44.8 percent from 46.2 percent a year earlier. The decrease is a result of adjustments to the tax provision in 1986 in connection with normal federal income tax audits. Investment tax credit reduced the Company's income tax rate 3.1 percent in 1985 and 2.3 percent in 1986. The Company would have realized an additional investment tax credit of \$463,000 if the 1986 Tax Reform Act had not retroactively repealed the credit for projects not under contract as of January 1, 1986.

As a result of the Tax Reform Act of 1986, the Company expects its effective income tax rate to be approximately 44.5 percent in 1987 and to decline to approximately 36.5 percent in 1988. The Act should increase future net earnings even with the elimination of investment tax credit.

Depreciation in 1986 increased to \$30,741,000 from \$28,087,000 in 1985. The Company's continued investment in automation and renovation of existing facilities is responsible for this increase.

Other income increased to \$4,491,000 from \$2,959,000 in 1985. Primarily this reflects interest and dividends on a larger balance of Company investments.

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ANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION (Continued)

Although advertising expenses increased by \$721,000 to \$71,423,000 in 1986, they declined in 1986 as a percentage of sales. This is a result of the sales of FDL Marketing, Inc., which are primarily commodity, fresh pork products requiring smaller advertising budgets. The higher level of advertising expenses in 1985 and 1986 over historical levels reflects increased activity in the introduction and promotion of branded consumer products. The introduction of new products to complement the existing mature product line will continue in 1987.

Maintenance and repair expenses declined in 1986 by \$656,000 to \$28,028,000, primarily as a result of reduced operations in Austin and Ottumwa resulting from the labor dispute.

Fiscal Years 1985 and 1984

Fiscal 1985 was an extremely turbulent year in the meatpacking industry. The entry of increasing numbers of low cost producers and a corresponding decline in consumption of red meat products have intensified competition and weakened many commodity oriented companies. The Company has made a major commitment to move away from the commodity oriented pork slaughtering business and concentrate on further development of value-added, consumer branded food products.

The record setting performance of the Company takes on added significance considering the condition of the industry and the work stoppage at the Austin plant by Local P-9 of the United Food & Commercial Workers (UFCW) union which began August 17, 1985, and continued through the end of the fiscal year.

Sales increased by \$47,708,000, or 3.3 percent, over 1984 to a record \$1,502,235,000. Tonnage increased slightly despite a tonnage loss resulting from the discontinuance late in 1984 of a second-shift pork slaughtering operation in Austin. Sales increases of higher margin, value-added, consumer branded products offset the tonnage loss at the Austin plant.

Gross margin increased by \$49,315,000, primarily as a result of favorable raw material prices, a continuing cost control program and increased efficiency and utilization of Company manufacturing facilities as a result of contingency planning for a possible Austin plant work stoppage.

After many months of negotiations between the Company and FDL Foods, Inc., Dubuque, Iowa, an agreement was signed making FDL Marketing, Inc., a wholly owned subsidiary of Hormel, the exclusive marketer of FDL products. The agreement also provides Hormel the option to acquire FDL Foods, Inc., within a two-year period.

The effective tax rate in 1985 increased to 46.2 percent from 44.6 percent a year earlier. The increase includes adjustments to the 1985 income tax provision for the normal federal income tax audits for fiscal years 1981 through 1985 currently scheduled or in progress. Investment tax credit increased slightly which reduced the effective tax rate increase by .3 percent.

Depreciation in 1985 increased to \$28,087,000 from \$27,056,000 in 1984. The Company's commitment to automation and renovation of existing facilities is responsible for this increase.

Other income increased by \$1,808,000 to \$2,959,000 in 1985. This reflects higher yields of interest and dividends from Company investments.

Advertising expenses in 1985 increased by approximately 50 percent, or \$23,763,000 to \$70,702,000 from a year earlier in conjunction with the Company's move away from commodity items to value-added, consumer branded products.

Liquidity and Sources of Capital

Geo. A. Hormel & Company generated cash from operations of \$47,756,000 in fiscal year 1986, compared to \$73,216,000 and \$21,790,000 for 1985 and 1984, respectively. This consisted of \$76,344,000 in funds from operations and working capital changes which decreased cash by \$28,588,000. Comparable results in 1985 were funds from operations of \$76,574,000 and working capital changes decreasing cash by \$3,358,000; in 1984, funds from operations amounted to \$64,656,000 and working capital changes which decreased cash by \$42,866,000.

Cash and marketable securities on hand at the beginning of the year, in addition to funds generated in 1986, allowed the Company to maintain its long-term commitment to automation and renovation of production and distribution facilities and are also adequate to pay for the major portion of the \$85,000,000 purchase price to be paid for Jennie-O Foods, Inc., in fiscal 1987. The Company is planning to borrow \$25,000,000 in a Two-Year Note issued in a private placement in December, 1986. After the acquisition of Jennie-O Foods, Inc., the Company will still be in a strong financial position and able to assume additional debt necessary to take advantage of new business opportunities without impacting current operations. Long-term debt outstanding at the end of 1986 consisted of \$50,000,000 in Three-Year Notes issued in a private placement in September, 1985, at an interest rate of 10.10 percent. This will be increased by the \$25,000,000 Two-Year Note at 7.00 percent.

Working capital at the end of 1986 was \$196,199,000 but will be reduced by approximately \$32,000,000 upon completion of the Jennie-O Foods, Inc., acquisition. This was an increase of \$43,214,000 over working capital at the end of 1985 and \$89,867,000 over 1984.

The ratio of current assets to current liabilities improved to 2.58 at the end of 1986, compared to 2.13 and 1.73 at the end of 1985 and 1984, respectively.

Additions to property, plant and equipment in 1986 were \$21,477,000, compared to \$29,444,000 in 1985 and \$21,529,000 in 1984. There were no major additions during the year. The expenditures continued the modernization and automation program of the Company's manufacturing facilities.

The Tax Reform Act of 1986 will affect both future liquidity and the Company's financial position. The Act will cause a decrease in tax payments due to lower income tax rates. This cash inflow will be partially offset, however, by changes for tax purposes increasing depreciable lives for property and requiring additional costs to be capitalized as part of inventory.

With the new Act, deferred tax credit balances will be reduced from current levels. The "liability method" of accounting for income taxes proposed by the Financial Accounting Standards Board in a current Exposure Draft would additionally decrease the Company's deferred tax balance.

Inflation has not been a major factor in the Company's operation or in the financial results. The meat processing industry as a whole is less subject to inflation than many segments of the economy. Recently, inflation has been insignificant.

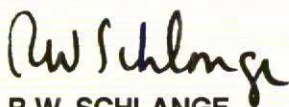
R RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The accompanying financial statements were prepared by the management of Geo. A. Hormel & Company which is responsible for their integrity and objectivity. These statements have been prepared in accordance with generally accepted accounting principles appropriate in the circumstances and, as such, include amounts that are based on our best estimates and judgments.

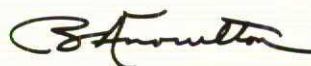
Geo. A. Hormel & Company has developed a system of internal controls designed to assure that the records reflect the transactions of the Company and that the established policies and procedures are adhered to. This system is augmented by well communicated written policies and procedures, a strong program of internal audit and well qualified personnel.

These financial statements have been examined by Ernst & Whinney, independent certified public accountants, and their report appears on page 52. Their examination is conducted in accordance with generally accepted auditing standards and includes a review of the Company's accounting and financial controls and tests of transactions.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the independent public accountants, management and the internal auditors to assure that each is carrying out its responsibilities. Both Ernst & Whinney and our internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the results of their audit work and their opinions on the adequacy of internal controls and the quality of financial reporting.



R.W. SCHLANGE
Vice President and Controller



R.L. KNOWLTON
Chairman of the Board
President and Chief Executive Officer

